

F0. Introduction

F0.1

(F0.1) Give a general description of and introduction to your organization.

Philip Morris International Inc. (PMI) is a leading international tobacco company. PMI has its executive headquarters in New York, US, its primary listing on the New York Stock Exchange (NYSE: PM), and its Operations Center in Lausanne, Switzerland. PMI manufactures and sells cigarettes, smoke-free products and associated electronic devices and accessories, and other nicotine-containing products in markets outside of the U.S. We have a wide range of cigarette brands, including the world’s best-selling international cigarette Marlboro. Our smoke-free product portfolio includes heat-not-burn and nicotine-containing vapor products. In 2020, PMI net revenues amounted to USD 28.7 billion excluding excise taxes on products worth USD 47.4 billion, on a like-for-like basis; 23.8% of PMI’s net revenues in 2020 related to the sale of smoke-free products. PMI’s 2020 total shipment volume for combustible products and smoke-free products was 730 billion (654 billion combustible products and 76 billion smoke-free products).

We are building our future on smoke-free products that are a much better consumer choice than continuing to smoke cigarettes. Our vision is that these products ultimately replace cigarettes to the benefit of adult smokers, society, our company and our shareholders. This ambition is at the very core of our corporate strategy and sits atop our sustainability priorities. For PMI, sustainability is an opportunity for innovation, growth, and long-term value creation, and a means to minimize the negative externalities associated with our products, operations, and value chain while maximizing operational efficiency and resource allocation. We have a global footprint: as of December 31, 2020, PMI had a workforce of close to 71,000 people worldwide and operated 39 production facilities globally. In 2020, our tobacco was sourced from over 285,900 contracted farmers across 23 countries, and our products were sold in over 175 markets.

Our sustainability materiality analysis helps us prioritize our focus where we can have the greatest impact. Climate protection, littering prevention and product eco-design and circularity are tier 1 environmental topics that are prioritized in our sustainability strategy.

Engagement beyond our own operations is key, as this is where the most significant sustainability impacts occur, especially when it comes to climate change and carbon emissions.

Our business has a significant, global supply chain organized by five main categories:

1. Agricultural products, including tobacco and other agricultural products, such as clove, menthol and guar gum.
2. Direct materials used to produce cigarettes and other tobacco products, such as acetate tow (for cigarette filters) and paper (both cigarette paper and for packaging materials).
3. Machines for our cigarette and heated tobacco products factories.
4. Electronic devices for heated tobacco and vapor products.
5. Goods and services that are not specific to the tobacco business, but essential for any business, such as office equipment etc.

As a responsible business, we want to understand and continuously address potential sustainability issues in our global supply chain. We are working with business partners to proactively identify, manage, and reduce risk, and create shared value. The description above is a summary and is qualified in its entirety by reference to the full text of PMI’s Annual Report on Form 10-K for the year ended 2020 and 2021 Proxy Statement dated March 25, 2021 filed with the U.S. Securities and Exchange Commission, and the full text of PMI’s Integrated Report 2020.

Remarks for this disclosure, in this submission:

- “PMI,” “we,” “us” and “our” refer to Philip Morris International Inc. and its subsidiaries;
- Trademarks and service marks in this submission are the registered property of, or licensed by, the subsidiaries of PMI Inc. and are italicized;
- Expectations, aspirational targets and goals set forth in this submission do not constitute financial projections;
- Smoke-Free Products or Reduced-Risk Products (RRPs) - the terms PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. PMI has a range of RRP’s in various stages of development, scientific assessment and commercialization;
- Materiality: In this submission and in related communications, the terms “materiality,” “material” and similar terms, when used in the context of economic, environmental, and social topics, are defined in the referenced sustainability standards, and are not meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the US Securities and Exchange Commission.
- Unless otherwise indicated, the scope of the data in this report covers our operations worldwide for the full calendar year 2020 or reflects the status as of December 31, 2020. Where not specified, data come from PMI estimates.

F0.2

(F0.2) State the start and end date of the year for which you are reporting data.

	Start Date	End Date
Reporting year	January 1 2020	December 31 2020

F0.3

(F0.3) Select the currency used for all financial information disclosed throughout your response.

USD

F0.4

(F0.4) Select the forest risk commodity(ies) that you are, or are not, disclosing on (including any that are sources for your processed ingredients or manufactured goods); and for each select the stages of the supply chain that best represents your organization's area of operation.

	Commodity disclosure	Stage of the value chain	Explanation if not disclosing
Timber products	Disclosing	Manufacturing	<Not Applicable>
Palm oil	Not disclosing	Manufacturing	PMI sources roughly 6,000 metric tons of vegetal glycerin derived from the production of biodiesel using palm oil as feedstock. The palm oil needed to produce this amount of vegetal glycerin is less than 0.01% of global palm oil production. According to PMI's deforestation risk assessment if PMI's market share of the commodity is lower than 2% and the commodity is sourced on a small scale where the overall impact on deforestation is low then the commodity does not represent a material risk of deforestation. Results from PMI's deforestation risk assessment within the value chain indicated that palm oil does not represent a material risk of deforestation for PMI due to the very low amount of palm oil that goes into PMI products. Palm oil based or containing glycerin represents 1.75% of the total Direct Material weight [tons] sourced by PMI based on agricultural raw material. Finally, palm oil-based glycerine is widely sourced from fully or partly RSPO certified suppliers, lowering again the risk of deforestation.
Cattle products	This commodity is not produced, sourced or used by our organization	<Not Applicable>	<Not Applicable>
Soy	Not disclosing	Manufacturing	PMI sources around 750 metric tons of vegetal glycerin derived from the production of biodiesel using soy as feedstock. The soy needed to produce this amount of vegetal glycerin is less than 0.0002% of global soy production. According to PMI's deforestation risk assessment if PMI's market share of the commodity is lower than 2% and the commodity is sourced on a small scale where the overall impact on deforestation is low then the commodity does not represent a material risk of deforestation. Results from PMI's deforestation risk assessment within the value chain indicated that soy does not represent a material risk of deforestation for PMI due to the very low amount of soy that goes into PMI products: Soy oil based or containing glycerin represents close to 0% of the total Direct Material weight [tons] sourced by PMI based on agricultural raw material.
Other - Rubber	This commodity is not produced, sourced or used by our organization	<Not Applicable>	<Not Applicable>
Other - Cocoa	Not disclosing	Manufacturing	PMI sources roughly 320 tons of cocoa products for flavour production. This amount compared with the global production of cocoa stands at about 0.007%, a very low volume. According to PMI's deforestation risk assessment if PMI's market share of the commodity is lower than 2% and the commodity is sourced on a small scale where the overall impact on deforestation is low then the commodity does not represent a material risk of deforestation. Cocoa powder represents close to 0% of the total Direct Material weight [tons] sourced by PMI based on agricultural raw material and above 95% of the cocoa volume is sourced from companies holding cocoa sustainability certifications.
Other - Coffee	This commodity is not produced, sourced or used by our organization	<Not Applicable>	<Not Applicable>

F0.5

(F0.5) Are there any parts of your direct operations or supply chain that are not included in your disclosure?

No

F1. Current state

F1.1

(F1.1) How does your organization produce, use or sell your disclosed commodity(ies)?

Timber products

Activity

- Using as input into manufacturing process for power generation
- Using as input into product manufacturing
- Distributing/packaging

Form of commodity

Paper
Boards, plywood, engineered wood
Primary packaging
Secondary packaging
Tertiary packaging
Cellulose-based textile fiber
Wood-based bioenergy
Other, please specify (Fine paper)

Source

Smallholders
Multiple contracted producers
Contracted suppliers (manufacturers)

Country/Area of origin

Argentina
Australia
Austria
Belgium
Bosnia & Herzegovina
Brazil
Canada
Chile
China
Croatia
Czechia
Denmark
Estonia
Finland
France
Germany
Hungary
Indonesia
Ireland
Italy
Latvia
Lithuania
Luxembourg
Malawi
Mozambique
Netherlands
New Zealand
Norway
Pakistan
Philippines
Poland
Portugal
Romania
Russian Federation
Serbia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Thailand
Ukraine
United Kingdom of Great Britain and Northern Ireland
United States of America
Uruguay

% of procurement spend

6-10%

Comment

The percentage is calculated based on the total supply chain spend which includes direct and indirect materials and services, technical procurement, RRP devices, R&D and Leaf Procurement. The countries of origin listed are the countries from where the wood-based materials are sourced from, either as wood fuels or as paper and pulp-based products for packaging materials. Both board and paper used for packaging together account for 3% of the total supply chain spend described above. Fine papers are specialty papers that are used exclusively for tobacco products and account for around 3% of the total supply chain spend described above. Acetate tow used in our filters, made out of acetate cellulose, and accounts for around 3% of the total supply chain spend described above. The spend with firewood and biomass from wood fiber used in the tobacco curing process for the flue cured tobacco purchased in 2020 is estimated at less than 1% of the total supply chain spend described above, summing up to around 10%. The disclosure is organized using the same categories (i.e. board and paper, fine papers, acetate tow and firewood and biomass from wood fiber) used by PMI to manage the supply chain of timber products. The same categories were used in the deforestation risk assessment of PMI's value chain, which has been the basis for setting priorities for further managing deforestation risks. Therefore, PMI has decided to use the same categories in its disclosure. This share is based on the total supply chain spend as described above.

F1.2

(F1.2) Indicate the percentage of your organization's revenue that was dependent on your disclosed forest risk commodity(ies) in the reporting year.

	% of revenue dependent on commodity	Comment
Timber products	100%	100% of PMI heated tobacco units, cigarettes and other nicotine-containing products require timber derivative products. Additionally, PMI uses board and paper for packaging of the majority of PMI's products.
Palm oil	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

F1.5

(F1.5) Does your organization collect production and/or consumption data for your disclosed commodity(ies)?

	Data availability/Disclosure
Timber products	Consumption data available, disclosing
Palm oil	<Not Applicable>
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other - Cocoa	<Not Applicable>
Other - Coffee	<Not Applicable>

F1.5a

(F1.5a) Disclose your production and/or consumption data.

Forest risk commodity

Timber products

Data type

Consumption data

Volume

886222

Metric

Metric tons

Data coverage

Full commodity production/consumption

Please explain

<Not Applicable>

F1.5b

(F1.5b) For your disclosed commodity(ies), indicate the percentage of the production/consumption volume sourced by national and/or sub-national jurisdiction of origin.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Bahia)

% of total production/consumption volume

6.94

Please explain

In 2020 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework has been verified by a third party since 2018 and from the 3rd party verification conducted in 2020, all of the tobacco leaf suppliers achieved 100% compliance with PMI's monitoring framework. The curing fuel originated from Bahia refers to biomass from wood fiber. Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for

packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered). The volume sourced from three specific suppliers, which did not provide quantitative origin data, was assigned considering as assumption the highest risk level country of origin, i.e., the full volumes are allocated to the country representing the highest risk level, country/ies of origin identified by those suppliers and that are considered forest risk countries. This is the case of Brazil that is considered a forest risk country.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Espírito Santo)

% of total production/consumption volume

0.02

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered).

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Mato Grosso do Sul)

% of total production/consumption volume

0.76

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered).

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Minas Gerais)

% of total production/consumption volume

1.64

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered).

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Sao Paulo)

% of total production/consumption volume

0.51

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered).

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Santa Catarina)

% of total production/consumption volume

8.7

Please explain

In 2020 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework has been verified by a third party since 2018 and from the 3rd party verification conducted in 2020, all of our tobacco leaf suppliers achieved 100% compliance to PMI's monitoring framework. The curing fuel originated from Santa Catarina refers to firewood.

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Rio Grande do Sul)

% of total production/consumption volume

8.46

Please explain

In 2020 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework has been verified by a third party since 2018 and from the 3rd party verification conducted in 2020, all of our tobacco leaf suppliers achieved 100% compliance to PMI's monitoring framework. The curing fuel originated from Rio Grande do Sul refers to firewood. Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered).

Forest risk commodity

Timber products

Country/Area of origin

Brazil

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Parana)

% of total production/consumption volume

7.86

Please explain

In 2020 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers, to collect information and the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework has been verified by a third party since 2018 and from the 3rd party verification conducted in 2020, all of our tobacco leaf suppliers achieved 100% compliance to PMI's monitoring framework. The curing fuel originated from Parana refers to firewood. Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered).

Forest risk commodity

Timber products

Country/Area of origin

Argentina

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Buenos Aires)

% of total production/consumption volume

0.06

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered).

Forest risk commodity

Timber products

Country/Area of origin

Argentina

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Salta)

% of total production/consumption volume

0.26

Please explain

In 2020 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework has been verified by a third party since 2018 and from the 3rd party verification conducted in 2020, all of our tobacco leaf suppliers achieved 100% compliance to PMI's monitoring framework. The curing fuel originated from Salta refers to firewood. PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high-level global deforestation assessment. A deforestation risk map was developed for Argentina. As an input for the development of the

deforestation risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers to create the map. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood through the development of local forest risk maps with the support of an external consultant. Therefore, PMI can identify the municipality where the wood fuel is sourced from.

Forest risk commodity

Timber products

Country/Area of origin

Argentina

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Jujuy)

% of total production/consumption volume

0.06

Please explain

In 2020 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework has been verified by a third party since 2018 and from the 3rd party verification conducted in 2020, all of our tobacco leaf suppliers achieved 100% compliance to PMI's monitoring framework. The curing fuel originated from Jujuy refers to firewood. PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high-level global deforestation assessment. A deforestation risk map was developed for Argentina. As an input for the development of the deforestation risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers to create the map. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI can identify the municipality where the wood fuel is sourced from.

Forest risk commodity

Timber products

Country/Area of origin

Mozambique

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Zambezia)

% of total production/consumption volume

4.87

Please explain

In 2020 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework has been verified by a third party since 2018 and from the 3rd party verification conducted in 2020, all of our tobacco leaf suppliers achieved 100% compliance to PMI's monitoring framework. The curing fuel originated from Zambezia refers to firewood. PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high-level global deforestation assessment. A deforestation risk map was developed for Mozambique. As an input for the development of the deforestation risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers to create the map. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI can identify the municipality where the wood fuel is sourced from.

Forest risk commodity

Timber products

Country/Area of origin

Indonesia

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Kalimantan Tengah)

% of total production/consumption volume

0.64

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered). One specific supplier provided us with the aggregated volumes as well as the countries of origin of the feedstock used, but not the respective proportion by countries of origin. In this specific case, we have assigned the whole volumes considering as assumption the highest risk level country of origin, i.e., the full volumes are allocated to the country representing the highest risk level, which in this case is Indonesia.

Forest risk commodity

Timber products

Country/Area of origin

Indonesia

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Jambi)

% of total production/consumption volume

1.3

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered).

Forest risk commodity

Timber products

Country/Area of origin

Indonesia

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Sumatra)

% of total production/consumption volume

0.21

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered).

Forest risk commodity

Timber products

Country/Area of origin

Thailand

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Kanchanaburi)

% of total production/consumption volume

0.11

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered).

Forest risk commodity

Timber products

Country/Area of origin

Philippines

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Ilocos Norte)

% of total production/consumption volume

0.51

Please explain

In 2020 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework has been verified by a third party since 2018 and from the 3rd party verification conducted in 2020, all of our tobacco leaf suppliers achieved 100% compliance to PMI's monitoring framework. The curing fuel originated from Ilocos Norte refers to firewood.

Forest risk commodity

Timber products

Country/Area of origin

Philippines

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Ilocos Sur)

% of total production/consumption volume

2.21

Please explain

In 2020 PMI continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers, to collect information the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework has been verified by a third party since 2018 and from the 3rd party verification conducted in 2020, all of our tobacco leaf suppliers achieved 100% compliance to PMI's monitoring framework. The curing fuel originated from Ilocos Sur refers to firewood.

Forest risk commodity

Timber products

Country/Area of origin

Australia

State or equivalent jurisdiction

Specify state/equivalent jurisdiction (Victoria)

% of total production/consumption volume

0.71

Please explain

Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actual deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered). One specific supplier provided us with the aggregated volumes as well as the countries of origin of the feedstock

used, but not the respective proportion by countries of origin. In this specific case, we have assigned the whole volumes considering as assumption the highest risk level country of origin, i.e., the full volumes are allocated to the country representing the highest risk level, which in this case is Australia.

Forest risk commodity

Timber products

Country/Area of origin

Any other countries/areas

State or equivalent jurisdiction

<Not Applicable>

% of total production/consumption volume

53.98

Please explain

The above-mentioned volume refers to the sum of wood fuels for tobacco curing and paper and pulp-based direct materials sourced in 2020 which did not originate from forest risk countries as per CDP Guidance (Austria, Belgium, Bosnia, Canada, Chile, China, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malawi, Netherlands, New Zealand, Norway, Pakistan, Poland, Portugal, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine, United Kingdom, Uruguay, U.S.A). In 2020 PMI has continued to implement a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel in the markets from where we source Virginia Flue-Cured. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers, to collect information regarding the source of firewood and through this method the fuel consumption is measured. PMI's monitoring framework has been verified by a third party since 2018 and from the 3rd party verification conducted in 2020, all of our tobacco leaf suppliers achieved 100% compliance to PMI's monitoring framework. Direct Materials' traceability data are tracked on a yearly basis for paper and pulp-based products (acetate tow, board and paper used for packaging and fine papers). They are based on previous year actuals deliveries. We request suppliers to provide qualitative data (information requested down to Forest Management Units location) as well as quantitative data (in percentage of total volume delivered). For the countries not identified as a high-risk country in our risk analysis, suppliers were not requested to disclose at a level of detail beyond country level.

Forest risk commodity

Timber products

Country/Area of origin

Unknown origin

State or equivalent jurisdiction

<Not Applicable>

% of total production/consumption volume

0.19

Please explain

Despite our efforts to engage with our paper and pulp-based direct material suppliers to provide quantified traceability data, we have faced reluctance to disclose such level of information from some players of specific paper and pulp-based products industries. Furthermore, some major partners of ours have explained that such information is proprietary and refer to trade secrets related to their products they manufacture. The tree species they use in the recipe of their products is an element that distinguishes acetate tow grades and qualities from their competitors. Hence for antitrust reasons, they feel they would rather not disclose data related to countries of origin as well as the proportional quantities in use.

F1.6

(F1.6) Has your organization experienced any detrimental forests-related impacts?

Yes

F1.6a

(F1.6a) Describe the forests-related detrimental impacts experienced by your organization, your response, and the total financial impact.

Forest risk commodity

Timber products

Impact driver type

Physical

Primary impact driver

Forest fires

Primary impact

Supply chain disruption

Description of impact

With climate change causing weather patterns across the globe to change dramatically, local impacts become increasingly evident. The occurrence of forest fires during 2020 was a cause for global alarm, particularly in countries from where we source tobacco. The losses in forest cover, primary but also secondary ones, contribute to land use change adding to the pressure on the demand for sustainable wood-based materials. The curing of Virginia Flue-Cured tobacco (FCV) is a process highly dependent on fuels, for which firewood and biomass are commonly used (67% of the FCV sourced by PMI in 2020 was cured with wood fuels). For example, 100% of the FCV volume sourced in 2020 from Brazil was cured with firewood and woodchips coming from sustainably managed secondary forests. In Brazil alone an estimated 1.7 million hectares of primary forest were lost during 2020, with fires playing a large role in the destruction of natural ecosystems. Due to an increase in forest cover loss, the availability of sustainable wood products from secondary forests is impacted, generating knock-on effects in the supply of sustainable and traceable firewood and wood-based fuels for tobacco curing in line with PMI's requirements. The impacts experienced so far have not been substantive according to the company's definition of financial and strategic substantive impact (threshold of \$5 million). However, PMI continues to monitor them as they could potentially become more substantial.

Primary response

Tighter supplier performance standards

Total financial impact

4900000

Description of response

PMI is responding to this issue by involving multiple stakeholders within and beyond the company, with its senior management (e.g., our SVP Operations) and sustainability teams for the creation of policies, procedures and targets to achieve full traceability and sustainability of wood fuels for tobacco curing. Within PMI's supply chains, we work with tobacco leaf suppliers through the application of the Monitoring Framework (MF) for Sustainable Curing Fuels that all tobacco suppliers should comply with by 2020. The MF verification process was performed by a 3rd party in 2020 which resulted to 100% compliance of all tobacco leaf supplier. Outcomes to date include the development of PMI's forests policy and traceability commitment (which have led to the sourcing of more than 97% sustainable wood fuels for tobacco curing in 2020), development of a deforestation risk assessment, and country specific programs to tackle deforestation. E.g., in Brazil and Philippines a thorough analysis of the forest management system relevant to the local wood-based fuel supply was done in 2020. The results of this assessment were used by local farmers and suppliers to drive actions to ensure the requirements of the MF are met. The indicated financial impact (\$4.9 million) refers to the set annual budget, incl. costs associated to execute our Good Agricultural Practices Program, initiatives to address deforestation issues in our tobacco supply chain and costs to implement and verify the MF.

Forest risk commodity

Timber products

Impact driver type

Reputational and markets

Primary impact driver

Uncertainty about product origin and/or legality

Primary impact

Brand damage

Description of impact

Deforestation is a global issue with local impact. PMI sources tobacco from some markets subject to risk based on their current or future risk of deforestation, bringing concerns at reputational level on how to tackle issues. This is the case for PMI's sourcing from tropical and subtropical countries such as Brazil and Indonesia, where deforestation continues to be an issue threatening local populations and natural ecosystems. Failing to address deforestation and to secure sustainable, deforestation-free raw materials from at risk countries could prevent PMI from achieving its Zero Deforestation Manifesto (ZDM) targets and damage the brand. In 2020, attention from public and international organizations on environmental impacts from tobacco industry continued to increase. Land use change and associated impacts on ecosystem services were particularly relevant, e.g. as published in 2019 in a report by the Intergovernmental Panel on Climate Change (IPCC). Even though PMI has significantly increased traceability of its paper and pulp-based materials, there is a share that remains uncertain (0.19%). PMI will prioritize engagement with these suppliers in the future to ensure their products are in line with PMI's ZDM requirements. The impacts experienced so far have not been substantive according to the company's definition of strategic and financial substantive impact (\$5 million). However, PMI continues to monitor them as they could potentially become more substantial.

Primary response

Greater traceability of forest-risk commodities

Total financial impact

4900000

Description of response

PMI is responding to this issue by involving multiple stakeholders within and beyond the company. Within the company, PMI has involved its senior management (for example, our SVP Operations) and sustainability teams for the creation of policies, procedures and targets to achieve zero deforestation supply chains. As part of this effort, PMI set a target to source 100% of the wood fuel for tobacco curing as traceable and sustainable which was audited by a 3rd party in 2020. Within PMI's supply chains, the company is working with tobacco leaf suppliers through the application of the Monitoring Framework (MF) for Sustainable Curing Fuels that all tobacco leaf suppliers should comply with. Outcomes to date include the development and implementation of PMI's forests policy and traceability commitment (which led to sourcing of over 97% sustainable wood fuels for tobacco curing in 2020), the development of a deforestation risk assessment, and country specific programs to tackle deforestation. The indicated financial impact (\$4.9 million) includes the costs associated with the set annual budget to execute our Good Agricultural Practices Program and initiatives to also address deforestation issues in our tobacco supply chain. The annual budget is allocated to initiatives to catalyse the adoption of improved and innovative practices by the farmers in our supply chain, such as adoption of bulk tobacco curing barns. It also includes the costs to implement and verify the MF.

F2. Procedures

F2.1

(F2.1) Does your organization undertake a forests-related risk assessment?

Yes, forests-related risks are assessed

F2.1a

(F2.1a) Select the options that best describe your procedures for identifying and assessing forests-related risks.

Timber products

Value chain stage

Direct operations
Supply chain

Coverage

Full

Risk assessment procedure

Assessed as part of other company-wide risk assessment system

Frequency of assessment

Annually

How far into the future are risks considered?

> 6 years

Tools and methods used

Internal company methods
External consultants
Global Forest Watch Pro
National specific tools and databases
Other, please specify (Big Chain Tool)

Please explain

External consultants developed PMI's deforestation risk assessment covering PMI's entire value chain, focusing on global materials sourced for manufacturing purposes. The risk assessment follows a relevance assessment to prioritize materials through two indicators: global deforestation impact of the material, and PMI's sourcing origins, weighted by PMI's market share per material. The analysis included national specific data on land use such as: cover, deforestation trends, emissions from deforestation, availability of certified materials and corruption. To assess the deforestation impact, PMI used the BigChain Tool (BCT). The BCT was used to execute a screening of deforestation linked to commodity production and identify risks on a geographic basis. The BCT assessed impact of land use change associated with the expansion of tobacco farming for all countries where PMI sources tobacco. From this prioritization, targeted risk assessments were implemented for tobacco leaf and priority paper and pulp-based products. Deforestation risk maps were developed for countries where farmers use firewood for tobacco curing and deforestation risks were identified. Internal company methods were used to assess risks associated with the use of timber for tobacco curing barn construction. In 2020, PMI's global forest risk map was refreshed and Global Forest Watch (GFW) Pro was used to identify the deforestation rate, forest cover and land cover classifications. The results showed that four countries (Argentina, Brazil, Mozambique, and Poland) had deforestation that could be associated with tobacco farming. Nonetheless, as a result of a low potential impact and strong mitigation actions already in place, such as the implementation and 100% compliance to PMI's Monitoring Framework, the overall estimated risk for PMI is low. These methods were selected as PMI considered that only through a combination of methods PMI could assess all the risks associated to its different commodities, processes and locations. These methods have been effective at identifying all the relevant risks for PMI's operations, which has enabled the company to engage key suppliers and develop strategies to mitigate risks from those materials that could represent the highest risks to forests.

F2.1b

(F2.1b) Which of the following issues are considered in your organization's forests-related risk assessment(s)?

Availability of forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

This issue is important because the availability of timber is key as fuel for tobacco curing, and to produce paper and pulp-based products such as fine papers and cellulose acetate tow for the manufacture of heated-tobacco units and cigarettes. Therefore, assessing the availability of timber is important to ensure PMI's future ability to manufacture some of its products. Decreased availability of timber would impact the entire value chain. To assess this issue, PMI uses its comprehensive deforestation risk assessment as the main tool to identify forest-related risks in our supply chain and derive further interventions (including national specific tools and databases, and internal monitoring tools). To assess the deforestation impact, PMI used the BigChain Tool (BCT). The BCT was used to execute a screening of deforestation linked to commodity production and identify risks on a geographic basis. PMI also uses Global Forest Watch Pro to update and monitor the deforestation risk in our leaf tobacco supply chain. As a result, the Monitoring Framework for Sustainable Leaf Curing Fuel (internal company methods) was developed and its implementation enables tobacco leaf suppliers to show that their contracted farmers have identified traceable and sustainable fuel sources year on year. They can do so by providing proof of long-term contracts with compliant fuel vendors or by presenting a dedicated study on the sustainable sourcing of the fuel. The assessment also considers existing mitigation actions implemented by tobacco leaf suppliers, for example, the establishment and sustainable management of farmer-owned woodlots to ensure the availability of sustainable wood fuel now and in the future. Results from the assessment are used to inform PMI's sustainability and sourcing strategies, and to identify key suppliers who may require further technical assistance and capacity building. Through a third-party PMI then assesses the share of tobacco leaf suppliers and farmers that comply with the Monitoring Framework requirements, validating the effectiveness of program and safeguarding the future availability of sustainably sourced wood fuel.

Quality of forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

The type of wood and tree species used as fuel for tobacco curing (i.e. tobacco drying process) can impact the curing efficiency and therefore the amount of fuel needed to cure the Virginia tobacco. Virginia tobacco is flue-cured, which means that the leaves are placed in curing barns, where heated air is generated to dry the leaves. As tobacco is the main ingredient in the manufacture of PMI's products, this issue can impact the entire value chain. To assess this issue, PMI uses its comprehensive deforestation risk assessment as the main tool to identify forest-related risks in our supply chain and derive further interventions (including national specific tools and databases, and internal monitoring tools). To assess the deforestation impact, PMI used the BigChain Tool (BCT). The BCT was used to execute a screening of deforestation linked to commodity production and identify risks on a geographic basis. PMI also uses Global Forest Watch Pro to update and monitor the deforestation risk in our leaf tobacco supply chain. As a result the Monitoring Framework for Sustainable Leaf Curing Fuel (internal company methods) was developed and its implementation enables tobacco leaf suppliers to identify the tree species used for firewood, guarantee that their origin is sustainable and report on their use for tobacco curing. Results from the assessment are used internally to develop initiatives that encourage farmers to use more efficient types of fuel, for example through the prioritization of wood fuels with higher calorific properties to reduce fuel consumption and optimize the curing process, with the provision of technical assistance to farmers on how to manage biomass fuels to optimize their performance.

Impact of activity on the status of ecosystems and habitats

Relevance & inclusion

Relevant, always included

Please explain

This issue is important to PMI because of our supply chain and the nature of the materials we source, can be linked to deforestation activities and have an impact on ecosystems and habitats. Failure to comply with ecosystems and habitats conservation regulations across our supply chain could raise legal consequences and could generate potential negative impacts on PMI's brand reputation which could affect PMI's revenue and PMI's business. PMI assesses this issue through a deforestation risk assessment of its entire value chain, involving external consultants and using national specific databases. Results show the main deforestation risks arise from the use of firewood and the sourcing of paper and pulp-based products. The risk assessment covered all the paper and pulp-based products suppliers and countries of origin, as well as all the countries where firewood is used for tobacco curing (Argentina, Brazil, Malawi, Mozambique, Pakistan, Philippines, and Poland). PMI also developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the global deforestation assessment (BigChain Tool). Forest risk maps for relevant countries were updated in 2020 by also analysing the impact of tobacco curing on forests surrounding tobacco farms. Results from this assessment are used to inform PMI's sustainability strategy and to develop additional initiatives to mitigate the identified risks. For example, the Monitoring Framework was developed as a result of the identification of global deforestation risks associated with tobacco curing. Through the Monitoring Framework concrete measures towards forest protection, including ecosystem and habitat conservation, are required and implemented. In 2019 PMI formalized its commitment to sourcing wood-based materials from traceable, sustainable and legal sources, while protecting the rights and livelihoods of local communities, through its Zero Deforestation Manifesto (ZDM), and set ambitious targets to drive the path towards its commitment, further supporting our efforts towards ecosystems and habitats conservation. The results of the forest risk maps are shared with tobacco leaf suppliers to develop forest risk mitigation plans focusing on farmers who are in proximity to forests at risk of deforestation.

Regulation

Relevance & inclusion

Relevant, always included

Please explain

PMI must comply with all regulations that applies in the more than the 175 countries where it operates. As wood-based materials are key for the manufacture of PMI products, any change to the regulatory framework of timber and the use of forest resources might impact PMI's entire value chain. PMI assesses this issue as part of the company's deforestation risk assessment using internal company methods, external consultants and national databases. As an example, PMI is using the national risk assessments of Forest Stewardship Council (FSC) as the basis for the risk assessments used for non-tobacco supply chain that takes into consideration national regulations and law. PMI complies with all applicable laws and meets and often exceeds relevant forest-related standards, particularly in those countries where national standards are lower than PMI's ones. The analysis considered regulations in countries where PMI sources paper and pulp-based products, focusing on identifying countries where regulations might not be strong enough to ensure that the products are being sustainably sourced. Results from the assessment are used to identify paper and pulp-based products' suppliers who operate in higher risk countries, based on the assessment methodology, and implement corrective actions. For tobacco suppliers, PMI uses the Monitoring Framework for Sustainable Curing Fuels, which considers compliance with local regulations such as the need for permits, registrations etc. at the supplier level. Additionally, PMI continuously monitors the legislative landscape to anticipate any change, to support ensuring that the regulatory requirements are met, as well as support further development of strategies internally and in collaborations with our suppliers.

Climate change

Relevance & inclusion

Relevant, always included

Please explain

This is important to PMI because it's a fundamental global issue with tangible physical and other impacts on our value chain that requires mitigation and adaptation measures. More concretely, our products heavily rely on the production of high-quality agricultural commodities, which can be impacted by climate change. We monitor on a yearly basis crop loss data related to extreme climate events collected through regular field reports, which can negatively impact not only tobacco but also wood-based materials we source, causing supply chain disruptions. PMI works directly with its suppliers and farmers, acknowledging they have a key role to play in climate protection. For this reason, PMI has set strong commitments towards climate protection through: its Zero Deforestation Manifesto, by preserving the forest capital and striving to generate net positive impact on forest associated with the tobacco supply chain; its validated Science Based targets in line with 1.5°C scenario and the commitment to achieve carbon neutrality in our direct operations (scope 1+2) by 2030 (we aim to achieve the target 5 years earlier by 2025) and across our value chain (scope 1+2+3) by 2050. As tobacco accounted for around 40% of PMI's carbon footprint in our 2010 baseline, PMI set goals and developed strategic initiatives to reduce GHG emissions related to tobacco growing such as barn efficiency programs which helps to reduce emissions generated by the fuel used for the tobacco curing process. To assess this issue, PMI use its deforestation risk assessment in combination with other internal company methods, national databases, external consultants and dedicated tools (BigChain). A GHG emission factor was assigned to unsustainable firewood identified through the deforestation risk assessment. At the corporate level, PMI uses its GHG emission inventory to track emission reductions and flag potential deviations to ensure swift responses. At the supplier level, PMI uses the Monitoring Framework for Sustainable Leaf Curing Fuel to calculate the emissions from tobacco flue-curing. The results of these assessments are used to inform PMI's sustainability and business strategies, particularly to identify key suppliers or geographies where additional programs, projects or initiatives are required to continue progressing on PMI's carbon emission reduction goals and climate protection efforts

Impact on water security

Relevance & inclusion

Relevant, always included

Please explain

This issue is important to PMI because it's a fundamental global issue and has tangible physical impacts on our value chain that require mitigation and adaptation measures. More concretely, our products heavily rely on the production of high-quality agricultural commodities, which can be impacted by water related issues. We monitor on a yearly basis crop loss data related to drought collected through regular field reports, flood and precipitation events, which can negatively impact not only tobacco but also wood-based materials we source, causing supply chain disruptions. About 38% of the tobacco PMI sources is irrigated, water availability and water quality being consequently essential. To maintain water quality and availability to the levels needed for tobacco cultivation it is paramount to protect natural areas upstream of the tobacco farms, positively contributing to the local water cycle. To assess this issue, PMI uses a set of risk assessments based on internal and external methods, in combination with existing tools (including WRI Aqueduct, Life Cycle Assessment, Alliance for Water Stewardship Standard), national databases, and support from external consultants. As a result of the deforestation risk assessment the upstream natural conservation areas are prioritized for protection. Combined with the results of the water risk assessment, prioritized targeted interventions are defined to improve water security conditions across our supply chain. Results from these assessments are used to identify geographies, facilities and suppliers that are exposed to water risks. This information is the basis for PMI's water stewardship, both to develop projects and inform the company's sourcing strategy. In PMI's water stewardship, the aim is to reduce water related impact through context specific projects in the agricultural activities of our supply chain and in the watersheds where we operate.

Tariffs or price increases

Relevance & inclusion

Relevant, always included

Please explain

This issue is important for PMI because tariff or price increase can have a negative impact on the profitability of the business or lead to product price increase, which could alter the demand for our products, and potentially affecting the entire value chain. This issue is assessed through the company-wide risk assessment and is part of procurement and supplier management. PMI uses internal company methods to identify any potential changes in tariffs or prices, to gain visibility within the supply chain. PMI also uses an online intelligence service provider as well as market intelligence literatures to monitor pulp markets and its economical dynamics. As part of the assessment, PMI monitors total volumes, order controls, anti-diversion plans and tracking and tracing. We also collaborate and exchange with the supply chain partners during Quarterly/Annual Business Reviews to gain on market intelligence in pulp and timber markets, leveraging on their on the ground networks. Assessment results are used to identify priority areas and suppliers that need to be engaged to mitigate risks arising from tariffs or price increases and inform the company's procurement strategies. The tariffs or price increases criteria are not contemplated as standalone elements, but in combination with the Zero Deforestation commitments, anticipating, if necessary, an adjustment of the sourcing strategy to either focus on sourcing certified materials by the FSC and the PEFC or rely on third party verification by reputable organizations. To further mitigate risks, PMI manages inventories and stocks for all direct materials to be able to mitigate this potential impact, additionally, PMI has a diversified strategy where sourcing is spread across different areas. PMI also aims to develop long term relationships with suppliers and to have a strong and stable supplier base.

Loss of markets

Relevance & inclusion

Relevant, always included

Please explain

This is an important issue for PMI because a market's inability to supply due to unavailability of paper and pulp-based raw materials and/or products caused by non-sustainable forestry management practices would affect PMI's entire value chain and therefore would have a negative impact on PMI's profits. This issue is assessed through the company-wide risk assessment and it is part of procurement and supplier management. PMI uses internal company methods to identify any potential loss of markets (regulation trends follow up, supply chain partners review leveraging on their on the ground networks etc.), as part of a broader strategy to secure a sustainable supply chain. As part of the assessment, PMI monitors total volumes of products, order controls, anti-diversion plans and tracking and tracing. PMI uses results from this assessment to identify the potential loss of markets and inform the company's procurement strategies. To further mitigate risks, PMI manages inventories and stocks for all direct materials to be able to mitigate this potential impact, additionally, PMI has a diversified strategy where sourcing is spread across different areas. PMI also aims to develop long term relationships with suppliers and to have a strong and stable supplier base. Finally, PMI has committed through its Zero Deforestation Manifesto, if necessary, to adjust its sourcing strategy to either focus on sourcing certified materials by the FSC and the PEFC or rely on third party verification by reputable organizations.

Leakage markets

Relevance & inclusion

Relevant, always included

Please explain

This issue is important to PMI because of our supply chain and the nature of the materials we source; it can be linked to potential indirect deforestation activities caused by leakage and have an impact on surrounding ecosystems and habitats. Potential impact to indirect deforestation and negative impact on ecosystems could generate negative impacts on PMI's brand reputation which could affect PMI's revenue and PMI's business. PMI assesses this issue through a deforestation risk assessment of its entire value chain which includes a 50km radius to also assess risk on the surrounding areas, involving external consultants and using national specific databases. Results show that the indirect deforestation risks can arise from the use of firewood and the sourcing of paper and pulp-based products. The risk assessment covered all the paper and pulp-based products suppliers and countries of origin, as well as all the countries where firewood is used for tobacco curing. Additionally, PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high-level global deforestation assessment (BigChain Tool). Forest risk maps for relevant countries were updated in 2020 by also analysing the impact of tobacco curing on forests surrounding tobacco farms. The risk assessment was done using Global Forest Watch Pro and it includes a 50km radius to analyse potential negative leakage impact. PMI uses results from its deforestation risk assessment to inform the company's decision-making processes related to business and engage with the relevant stakeholders in the supply chain to implement sustainability strategies to prevent deforestation issues to happen and potential brand damage.

Brand damage related to forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

This is an important issue for PMI because the risk of brand damage due to PMI sourcing of materials associated with deforestation may potentially affect sales and hence affect revenue and profits, impacting the entire value chain. This issue is assessed through PMI's materiality assessment, performed with the support of a third party and following the Global Reporting Initiative Standards requirements, which specifically assess the topic of forest conservation, as well as through our deforestation risk assessment, which focuses on identifying social, reputational, and environmental risks associated with wood-based fuels and materials in all countries, using internal company methods, external consultants, and national databases. For the pulp and paper industries, the risk assessment performed by external consultant is based on country and supplier profiles. Country profiles are developed based on desk research and provide an overview of the pulp and paper industry, and its associated risks in each of the countries. Supplier profiles are designed based on a scorecard with the most relevant elements that would indicate the extent to which each supplier is managing or mitigating its deforestation risks. Screening public information serves as a first step to identify high priority suppliers, and as a preparation stage for further supplier engagement. These risks assessments, developed in 2018, were updated in 2020 as part of the implementation of our Zero Deforestation Manifesto. For the tobacco supply chain, the analysis was focused on three drivers: i) land use change from tobacco farming expansion ii) use of biomass as a curing fuel iii) use of wood for tobacco curing barns. The combination of these three risk drivers defines the materiality of the deforestation risk for each tobacco sourcing market where PMI operates. PMI uses results from its deforestation risk assessment to inform the company's decision-making processes related to business, sourcing and sustainability strategies, in order to prevent brand damage. Examples of concrete actions taken from the risk assessment include the development of the Monitoring Framework for Sustainable Curing Fuels, the engagement with suppliers through our PMI's Responsible Sourcing Principles (RSP), the PMI's Zero Deforestation Manifesto, as well as specific projects with key suppliers.

Corruption

Relevance & inclusion

Relevant, always included

Please explain

This issue is important to PMI because it can affect the operations of PMI in certain countries where corruption could be an issue. Assessment of PMI's potential exposure to deforestation risk is done through deforestation risk assessment covering the entire value chain by combining external consultant's tools and methodologies, and national specific databases which supports the identification of potential risk areas. The assessment focuses on the origin of PMI's paper and pulp-based products and uses country specific data from the Forest Stewardship Council's Centralized National Risks Assessments to identify countries with a high-risk profile. Results from this assessment are used to inform PMI's sourcing strategy and to identify those suppliers that require additional engagement to mitigate potential corruption risk. It is also supported by our STEP program (Sustainable Transformation Enable Performance) which aims at supporting the deployment of our Responsible Sourcing Principles within our Supply Chain and which contain Business Ethics Management assessment criteria. Responsible Sourcing Principles are included in a clause in suppliers contracts and therefore part of contractual obligation for them.

Social impacts

Relevance & inclusion

Relevant, always included

Please explain

Continued engagement and partnerships with civil society remain essential to the company's success. PMI is aware that farming communities can be affected by environmental issues such as deforestation, which can in turn affect their capacity to grow tobacco and other crops, and therefore their livelihood. For this reason, PMI supports smallholder farmers and their communities to improve their environmental, social and economic conditions. PMI works hard to protect the environment through sustainable practices across its businesses and to address both existing social and environmental challenges, such as child labor in tobacco growing, and emerging topics pertaining to its business transformation, such as helping tobacco farmers to diversify their crops. PMI assesses this issue through its sustainability materiality assessment, performed with the support of a specialized third party and following the Global Reporting Initiative Standards requirements, which specifically assess the impact of our identified 26 topics on sustainable development (outward impacts on the environment and society, inward impacts on our business); as well as through a deforestation risk assessment of its entire value chain, involving external consultants and national specific databases PMI considers social impacts such as the presence of mechanisms within the forestry sector to guarantee indigenous populations' rights and the prevention of other social conflicts, including illegal logging in countries where paper and pulp-based products are sourced. Results from the country assessment are used to prioritize paper and pulp-based products' suppliers for further engagement. Results show that the biggest risks associated with the paper and pulp-based products' industry are linked to the destruction of primary forests. Consequently, our first set of targets, described in our Zero Deforestation Manifesto v2.0 (developed in 2020 and published in 2021), aims at ensuring: - zero gross deforestation of primary and protected forest associated with PMI's paper and pulp-based materials supply chain by 2025; - zero net deforestation of managed natural forest in the paper and pulp-based products PMI's supply chain and no conversion of natural ecosystems by 2030. PMI is exploring how to further engage and collaborate with suppliers sourcing from countries that were ranked as high risk.

Other, please specify

Relevance & inclusion

Please explain

F2.1c

(F2.1c) Which of the following stakeholders are considered in your organization's forests-related risk assessments?

Customers

Relevance & inclusion

Relevant, always included

Please explain

Customers are relevant and always included in our forest-related risk assessment as they are increasingly expecting brands to demonstrate their sustainability performance and manage their environmental impacts, especially related to deforestation and climate change. Failure to respond to PMI's customers' concerns could potentially negatively impact its business (for example a potential impact on sales). PMI engages with customers and civil society through a series of methods including ongoing dialogue, corporate communications, formal gatherings, attendance and contribution to forums and events, reports and consultations. Additionally, PMI considers results and trends arising from consumer panel surveys conducted by our commercial team regarding sustainability.

Employees

Relevance & inclusion

Relevant, always included

Please explain

Employees are relevant and always included in our forest-related risk assessment as they are the ones driving the implementation of PMI's goals and targets, and also managing supplier relationship. In the development of the deforestation risk assessment of PMI's entire value chain, all relevant employees are directly engaged throughout the deployment of the assessment. Engagement is done through meetings, electronic communication to receive information from relevant employees, including feedback on the results of the assessment. Employee groups include members of various teams such as procurement, environment, health and safety, external affairs, agricultural programs among others. For example, employees of external affairs focus on risks related to reputation and brand damage, whereas employees from the procurement team focus on embedding sustainability in our procurement practices, managing risks, continuously evaluating and supporting suppliers to align their sustainability efforts to our requirements and ensuring supply of materials. PMI uses additional methods to engage employees in forest related issues including training, ongoing dialogue, consultation, internal communication channels, surveys and questionnaires, forums, events, reports and publications. An example of this was the engagement for the sustainability materiality assessment, where employees' feedback was gathered. Their feedback in addition to the other results of the sustainability materiality assessment inform PMI's 2025 sustainability roadmap, including the climate protection strategy, for which our forest conservation commitments act as key enablers for mitigation actions. Local environmental awareness campaigns combined with tree planting activities are frequently organized at local level with the participation of employees and their families.

Investors

Relevance & inclusion

Relevant, always included

Please explain

Investors are included because they are one of the most important stakeholders, and they have to be informed of the performance of the company in all aspects. PMI engages with investors through various methods including ongoing dialogue on forests and sustainability issues, corporate communications and reports such as the Integrated Report, investor calls and investors' requests for public disclosures such as CDP, ESG ratings such as the S&P ESG Evaluation, attendance and contributions to forums and events. An example was the engagement in the sustainability materiality assessment, where investors' feedback was gathered. Their feedback in addition to the other results of the materiality assessment inform PMI's 2025 sustainability roadmap, including the climate protection strategy, for which our forest conservation commitments act as key enablers for mitigation actions. Another example of PMI's engagement with investors is its request for their feedback on the company's sustainability strategy and performance, including forest related issues.

Local communities

Relevance & inclusion

Relevant, always included

Please explain

Local communities where we operate are a relevant stakeholder in our value chain and always included in our forest related risk assessment because they are crucial to PMI's business and long-term success as they can play a key role at supporting the livelihoods of tobacco farmers as well as at protecting the local environment. For this reason, assessing and ensuring sustainable local business conditions, and involving local communities and farmers in the sustainable sourcing of firewood for tobacco curing is paramount for PMI. Local communities can represent different levels of engagement in evaluating deforestation related risk; in our tobacco supply chain we engage with farmers, firewood vendors and woodlot managers whose actions can have an impact on the state of sustainability of the area where they operate impacting environment and people much beyond their direct relationship with tobacco. They are engaged directly and through PMI's tobacco leaf suppliers, through different methodologies including ongoing dialogue, surveys and questionnaires, training, formal gatherings, forums and events, memberships and partnerships, consultation processes and others. For example, in 2020, through the implementation of our Monitoring Framework for Sustainable Curing Fuels, PMI and its tobacco suppliers directly engaged with local farmers, firewood vendors and communities in Pakistan and the Philippines to conduct the fuelwood sustainability studies to ensure the availability and traceability of sustainable fuelwood in these areas. Additionally, as part of the Monitoring Framework, all PMI's tobacco leaf suppliers must have a stakeholder engagement plan that includes local communities when relevant. Another example is the development of the forest risk maps for which local farmers and other stakeholders are interviewed. For example, in 2020, the global forest risk maps were updated as well as the forest risk map for Pakistan, which had originally been developed in 2017.

NGOs

Relevance & inclusion

Relevant, always included

Please explain

NGOs are included because they can often provide support and technical expertise to manage PMI's deforestation risks. PMI engages with NGOs in various ways, depending on the location of the organization as well as their area of expertise. Engagement methods include ongoing dialogue, consultations and other collaborations on a project basis. An example is PMI's deforestation risk assessment, which uses information developed by NGOs to assess both paper and pulp-based products' suppliers and countries from where PMI sources paper and pulp-based products (for example, reports of unsustainable practices, transparency rankings among others). Another example is PMI's Monitoring Framework for Sustainable Curing Fuels. As part of this framework, NGOs sometimes work directly with PMI's tobacco leaf suppliers to help them implement initiatives to reach the targets on sustainability and traceability. PMI also engages with NGOs directly through interviews for the development of forest risk maps and similar products. In 2020 the global forest risk map was updated as well as the forest risk map for Pakistan, which had originally been developed in 2017. These maps are updated, on average, every two to three years as it is not expected that the conditions change year to year. In 2020 PMI engaged with OMED, an NGO based in Pakistan to develop a sustainability study in the firewood sourcing districts of tobacco farmers. The objective is to understand in detail the level of sustainable quantities of firewood in each forest division and how these might impact PMI's forest-related risks in Pakistan. Another example was the engagement in the sustainability materiality assessment, where NGO's feedback was gathered. The results of the materiality assessment inform PMI's 2025 sustainability roadmap, including our climate protection strategy, for which our forest conservation commitments act as key enablers of mitigation actions.

Other forest risk commodity users/producers at a local level

Relevance & inclusion

Relevant, always included

Please explain

Other forest risk commodity users/producers at a local level are included because deforestation impacts at the regional or local level cannot be effectively addressed by a single company. Deforestation has several drivers and it is important for PMI to understand and involve other users to address this problem, as well as identify the extent to which every stakeholder can contribute. PMI engages with these local level stakeholders through a combination of methods, including ongoing dialogue, training, forums and events and other as necessary. PMI considers other users as part of its deforestation risk assessment, particularly those involved in the company's paper and pulp-based products' supply chain. An example is PMI's activity in Pakistan where the company is engaging with firewood vendors who not only supply tobacco farmers with firewood for tobacco curing but also for other uses such as construction materials and local packaging materials.

Regulators

Relevance & inclusion

Relevant, always included

Please explain

Regulators are included because they define the rules under which PMI operates. There is a risk that regulatory changes affect PMI's operations and its supply chain. Regulators were included as stakeholders to be engaged as part of the Monitoring Framework for Sustainable Leaf Curing Fuels. All PMI's tobacco leaf suppliers must have a stakeholder engagement plan where relevant regulators are identified and engaged with based on specific topics, and where pertinent information is exchanged. PMI engages with regulators through ongoing dialogue where appropriate and as per local regulations, training, formal gatherings, participation to forums and events. An example is the engagement between tobacco leaf suppliers in the Philippines with the Department of Environment and Natural Resources (DENR) along with the National Tobacco Association through meetings and workshops. As part of this engagement, supplier and the DENR have been sharing information to understand the availability of firewood in the regions and to manage the risk of deforestation by ensuring that farmers have access to legal sources of firewood. Another example is the engagement with Pakistan Forest Institute (PFI) and Division of Forest Office (DFO) to ensure that all farmers and wood vendors comply with local regulations by ensuring that these stakeholders will only access firewood from legal sources. Furthermore, in our non-leaf supply chain, our board and paper suppliers engage on a regular basis with regulators at sub-national, national or regional levels, e.g.: EU Commission, FFIF (Finnish forest industries federation), SFIF (Swedish Forest Industries Federation), CEPI (Confederation of European Paper Industries), and FEFCO (European Corrugated Packaging Association).

Suppliers

Relevance & inclusion

Relevant, always included

Please explain

Tobacco leaf suppliers are included because they are the ones who contract tobacco farmers and ensure PMI targets and standards are met. If tobacco leaf suppliers are not considered, there is a risk that PMI cannot achieve its targets. Suppliers are engaged through various methods such as dialogue, surveys and questionnaires, training, corporate communications, consultations, contractual relationships, project implementation and other ad hoc activities. For example, PMI works closely with tobacco leaf suppliers in the development of supplier-specific forest risk maps. Tobacco leaf suppliers provide relevant information related to their operations as well as feedback on forest risk map once developed. The final forest risk map is the result of a collaborative effort of PMI, 3rd party consultants and tobacco leaf suppliers. Additionally, PMI is working to strengthen the engagement with suppliers of paper and pulp-based products to validate the findings of the deforestation risk assessment related to such products, and that serves as a basis to monitor the compliance and progress towards our Zero Deforestation Manifesto commitments and guidelines. We engage with our suppliers to communicate our expectations, increase our understanding of their current practices and collaborate on targets setting to guarantee Zero Net Deforestation in line with PMI's Zero Deforestation Manifesto commitments for the materials they supply. Suppliers are evaluated through a due diligence and self-assessment process that allow us to identify risk exposure and areas where our support is needed. We develop actions plans with relevant suppliers to track and measure performance improvements. We are monitoring and engaging with suppliers sourcing from high-risk countries such as Indonesia and Brazil. Another example was the engagement for the sustainability materiality assessment, where business partners' feedback was gathered. Their feedback in addition to the other results of the materiality assessment inform PMI's 2025 sustainability roadmap, including the climate protection strategy and the targets which go beyond until 2030, for which our forest conservation commitments act as key enablers for mitigation actions.

Other stakeholders, please specify

Relevance & inclusion

Relevant, always included

Please explain

Media are included as they are the stakeholder that often plays a key role in informing the public on how companies demonstrate their sustainability performance and how they manage their environmental impacts, especially related to deforestation and climate change. They play a key role as they had an impact on public opinions and also for the decision-makers and policymakers which can develop the regulatory framework under which PMI operates. Media play a role in showing the good practices but also puts pressure to drive for further improvements. We receive regular media feed within sustainability working groups participation (e.g. WBCSD) and from our External Affairs offices.

F3. Risks and opportunities

F3.1

(F3.1) Have you identified any inherent forests-related risks with the potential to have a substantive financial or strategic impact on your business?

	Risk identified?
Timber products	Yes
Palm oil	<Not Applicable>
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other - Cocoa	<Not Applicable>
Other - Coffee	<Not Applicable>

F3.1a

(F3.1a) How does your organization define substantive financial or strategic impact on your business?

PMI evaluates a "substantive impact" (e.g., financial or strategic impact) based on a variety of factors and quantitative indicators including but not limited to the potential impact on financial performance as well as other strategic factors that may affect PMI's efforts and/or delivery towards a smoke-free future and ultimately replace cigarettes with smoke-free products to the benefit of adults who would otherwise continue to smoke, society, the company and its shareholders. The impacts reported as substantive strategic or financial impacts are defined as those identified and prioritized by management in our value chain, through key enterprise risks based on four risk dimensions: the impact a risk could have on the organization if it occurs, the likelihood a risk will occur, the velocity with which a risk would affect the organization if it occurs, and the interconnectivity of a risk with other risks, that exceed defined thresholds at the corporate level.

As part of the Company's annual Integrated Risk Assessment (IRA) process we have conducted a Climate Change Risk Assessment to evaluate and understand the impact of climate change on PMI business and a Deforestation Global Risk Assessment. When assessing risks related to Climate Change and Deforestation, we consider long term horizons (2030 and 2040 scenarios), multiple climate related indicators aligned with forest-related indicators, and impact drivers including but not limited to climate change and deforestation events that may:

- influence or impact our operations (e.g.: raw material sourcing, factories, finish goods distribution);
- affect a large number of areas where we source tobacco and/or other raw materials, impacting the continuity of supply for years, and consequently driving related cost up;
- trigger a competition in resources demand,
- natural disaster, water scarcity, change in weather pattern and extreme weather events impacting the availability of raw materials.

Between 2018 and 2019 PMI performed a climate change risk and opportunity assessment following the Taskforce on Climate-Related Financial Disclosures (TCFD) methodology. This allowed the evaluation of transition risks in addition to the physical ones considering impact drivers such as cost, asset efficiency and reputation.

As part of our IRA process, we have put in place an extensive risk control program by which to assess the physical risks of climate change. Locations with values exceeding \$30 million range are surveyed by engineers from our property insurer, who provide recommendations to us on the magnitude of environmental risks and the cost of management. Recommendations for risk management are given if the expected reduction in the financial impact of the risk exceeds the cost to comply by a factor of 10 or more. Internally, we focus on recommendations above the \$50 million range as management of identified risks can involve substantial internal capital investment and disruption to operations including our supply chain.

In 2020 and beyond (2020+) risk forecasting terms, we assumed as substantive impacts those in excess of \$5 million or a raw material impact in excess of 1000 metric tonnes of tobacco leaves. This definition is applicable to PMI's agricultural supply chain. Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks more broadly across our value chain. These risks include availability of forest resources, and impact on deforestation.

F3.1b

(F3.1b) For your disclosed forest risk commodity(ies), provide details of risks identified with the potential to have a substantive financial or strategic impact on your business, and your response to those risks.

Forest risk commodity

Timber products

Type of risk

Reputational and markets

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Increased commodity prices

Primary potential impact

Reduction or disruption in production capacity

Company-specific description

Wood-based materials are key materials to produce and market PMI products. For example, firewood and biomass are used for tobacco curing, while paper and pulp-based products are used to produce cigarettes and are also used in packaging. In some geographies the tobacco purchased by PMI is highly dependent on wood fuel for the curing process and accounts for a significant portion of the overall curing fuel consumption. For example, the Virginia flue cured tobacco sourced by PMI in 2020 from Brazil and Mozambique was cured solely with wood fuel; while both are defined as forest risk countries. Increased ecosystem vulnerability fuelled by additional deforestation could decrease the availability of wood-based materials in the future. This can impact PMI's ability to manufacture cost-competitive products if firewood for tobacco curing or paper and pulp-based products such as fine papers or cellulose acetate tow needed for the manufacture of cigarettes become more expensive. Such increase in our production costs might directly affect our revenue or even our competitiveness if we would increase the price of our products due to increase in production costs.

Timeframe

>6 years

Magnitude of potential impact

Medium-low

Likelihood

More likely than not

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact (currency)

7000000

Potential financial impact figure - minimum (currency)

<Not Applicable>

Potential financial impact figure - maximum (currency)

<Not Applicable>

Explanation of financial

In 2020+ risk forecasting terms, we assumed as substantive risks those with a potential impact in excess of \$5M or a raw material impact in excess of 1000 metric tonnes of tobacco leaves in our tobacco supply chain. Since 2015, we have been expanding our forest programs by first assessing current and future forest-related risks, including the availability of forest resources, and impact on deforestation. To estimate financial impacts from this risk, PMI used public data sources on typical cost shares for firewood and fossil fuels in agri-commodities, and estimates potential price increments resulting from supply chain disruptions due to increased ecosystem vulnerability. PMI assessed that poor enforcement of regulation could lead to increased ecosystem vulnerability impacting farmers' production cost due to an estimated 16% price increase in the acquisition of sustainable firewood, increasing PMI's procurement costs above our metric for substantive financial impact. PMI estimated financial impacts by using the modelled increments in firewood and diesel costs, along with total volumes of purchased tobacco and the ratio of volume being cured using fossil fuels as well as renewable fuel sources on an annual basis. It was then assumed that the PMI procurement expenditure on tobacco would remain constant in a business as usual scenario and increase by the same rate as the modelled increment price under climate change scenarios (16%), resulting on a financial impact estimation of \$70M

Primary response to risk

Engagement with suppliers

Description of response

In 2016 PMI developed a Monitoring Framework (MF) for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with by 2020, with a verification process starting in 2018. The audits are performed by a third-party and the first cycle concluded in 2020. As a result of the 3rd party audit conducted in 2020, all of our tobacco leaf suppliers are verified to be compliant to PMI's MF. PMI will continue to enforce and implement the 3rd party verification for all tobacco leaf suppliers annually. The MF is an ongoing process and continues to be implemented in all countries where PMI sources Flue Cured Virginia tobacco (FCV). The implementation of the MF and the associated supplier engagement is expected to address the risk of increased ecosystem vulnerability by providing an understanding of the deforestation risk associated with tobacco curing through the development of forest risks maps. Tobacco leaf suppliers then must develop a forest risk mitigation plan to manage the identified deforestation risks. PMI considers that the response has been effective and that tobacco leaf suppliers who have developed forest risks maps are equipped to develop risk mitigation plans. Since its development, the MF has been an effective mechanism to identify and prevent any potential risks associated with disruptions in the supply chain. In 2020 PMI was able to track 97% of the curing fuel incl. firewood and biomass, ensuring that it is sustainably sourced according to its standards.

Cost of response

4900000

Explanation of cost of response

The cost of response is based on the annual budget allocated in 2020 to environmental projects (incl. implementation of the Monitoring Framework and associated activities to enable farmers to use sustainable fuels for tobacco curing) under the Good Agricultural Practices program across all regions, accounting for approx. \$4.9 million in expenditures. The set annual budget (i.e. we set a single investment amount into the program and it is not possible to provide a breakdown) is allocated to initiatives, such as to catalyze the adoption of improved and innovative practices by the farmers in our supply chain. It includes the costs to implement and verify the Monitoring Framework. It is expected that the same level of associated costs will continue after 2020.

Forest risk commodity

Timber products

Type of risk

Regulatory

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Poor enforcement of regulation

Primary potential impact

Increased production costs

Company-specific description

PMI sources a portion of materials from some countries known for their limited enforcement of forest-related regulation. We comply with the laws and we have compliance policies and programs in place which we require our suppliers to follow. If protected areas or timber harvest regulations are not enforced and if PMI does not have certainty that regulation designed to ensure sustainability of materials is enforced, PMI invests in additional measures to verify that the material is sustainable in those countries. For example, PMI sources Virginia flue cured tobacco from Philippines and Malawi, among other countries, and, based on the development of country-specific forest risk maps, we have identified possible deforestation risks in these countries, both of which rely solely on wood fuel for the curing process. Even though forests are protected by law, this is not always enforced, therefore, PMI's procurement costs may increase due to the additional measures PMI is implementing to ensure all firewood and biomass used as curing fuel is sustainable (for example, local risk assessment procedures, additional engagement with local suppliers, development of sustainability projects).

Timeframe

Current - up to 1 year

Magnitude of potential impact

Medium-low

Likelihood

Very likely

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact (currency)

7000000

Potential financial impact figure - minimum (currency)

<Not Applicable>

Potential financial impact figure - maximum (currency)

<Not Applicable>

Explanation of financial

In 2020+ risk forecasting terms, we assumed as substantive risks those with a potential impact in excess of \$5M or a raw material impact in excess of 1000 metric tonnes of tobacco leaves in our tobacco supply chain. Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks, including availability of forest resources, and impact on deforestation. To estimate financial impacts from this risk PMI used public data sources on typical cost shares for firewood and similar agricultural products, and estimates potential price increments resulting from supply chain disruptions due to increased ecosystem vulnerability. PMI estimated that poor enforcement of regulation could lead to the risks of increased ecosystem vulnerability impacting farmers' production cost due to an estimated 16% price increase in the acquisition of sustainable firewood, increasing PMI's procurement costs above our metric for substantive financial impact. PMI estimated financial impacts by using modelled increments in firewood costs, along with total volumes of purchased tobacco and the ratio of volume cured using fossil fuels as well as renewable fuel sources on annual basis. It was then assumed that the PMI procurement expenditure on tobacco would remain constant in a business as usual scenario and increase by the same rate as diesel price under climate change scenarios (16%), resulting on a financial impact estimation of \$70M.

Primary response to risk

Engagement with suppliers

Description of response

In 2016 PMI developed a Monitoring Framework (MF) for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with by 2020, with a verification process starting in 2018. The audits are performed by a third-party and the first cycle concluded in 2020. As a result of the 3rd party audit conducted in 2020, all of our tobacco leaf suppliers are verified to be compliant to PMI's MF. PMI will continue to enforce the MF and implement the 3rd party verification for all Flue Cured Virginia tobacco leaf suppliers annually. PMI actively engages with tobacco suppliers to support them in the implementation of the MF. Its implementation and the associated supplier engagement are expected to address the risk of poor enforcement of regulation by requiring tobacco leaf suppliers to ensure that all biomass used as fuel is sustainable. PMI considers that the response has been effective and that tobacco leaf suppliers implementing the MF are addressing this risk. Currently, above 97% of the curing fuel incl. firewood and biomass, is sustainable and traceable, which has decreased the risk and is expected to prevent future impacts. Additionally, to address poor enforcement of regulation and other risks, in 2019 PMI updated its Responsible Sourcing Principles These principles provide process and performance requirements applicable to all suppliers including environmental, social and governance topics.

Cost of response

4900000

Explanation of cost of response

The cost of response is based on the annual budget allocated in 2020 to environmental projects (incl. implementation of the Monitoring Framework and associated activities to enable farmers to use sustainable fuels for tobacco curing) under the Good Agricultural Practices program across all regions, accounting for approx. \$4.9 million in total expenditures. The set annual budget (i.e. we set a single investment amount into the program and it is not possible to provide a breakdown) is allocated to initiatives to catalyze the adoption of improved and innovative practices by the farmers in our supply chain. It includes the costs to implement and verify the Monitoring Framework. It is expected that the same level of associated costs will continue after 2020.

Forest risk commodity

Timber products

Type of risk

Reputational and markets

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Increased cost of certified sustainable material

Primary potential impact

Increased production costs

Company-specific description

There is no mature market for certified wood fuel. This is a challenge for PMI to source certified sustainable materials. For the case of wood-based curing fuels, for example, PMI is already requiring tobacco leaf suppliers to ensure the fuel's sustainability and traceability through specific on the ground activities, PMI's increased engagement with the tobacco leaf suppliers in sustainability activities results in additional expenditures. Expenditures in sustainability activities is one of the elements that may impacts our tobacco procurement costs. The fine papers and acetate tow supply chains have worked to catch up on their lag in offering certified sustainable material vs the packaging board and paper supply chain. Latest estimate shows that close to 90% of our fine paper suppliers, and 100% of our acetate tow suppliers are now either part of certified chain of custody, and/or sourcing their wood from 100% certified sources. However, as stated in the Zero Deforestation Manifesto, PMI contemplates the purchase of certified material as being part of the solution, in addition to a robust wood fibers' traceability, share of third party verified products, and use of recycled material. So far, the market dynamics on the supply side do not reflect a competitive offer for certified product to keep our business in a financially viable and sustainable position. In summary, today we source non-certified products from certified sources

Timeframe

1-3 years

Magnitude of potential impact

Medium-low

Likelihood

About as likely as not

Are you able to provide a potential financial impact figure?

Yes, an estimated range

Potential financial impact (currency)

<Not Applicable>

Potential financial impact figure - minimum (currency)

18000000

Potential financial impact figure - maximum (currency)

94000000

Explanation of financial

The latest review of our board and paper(B&P) used for packaging, acetate tow (AT), fine papers (FP) and shipping case (SC) supply chains showed that a substantive cost increase is to be expected if PMI decides to adjust its sourcing strategy and buy certified products. A range of mark up going from 3% (\$18M) to 5% (\$24M) of the yearly purchasing spend is an estimate of cost increase applicable to these 4 commodities (FP, AT,B&P and SC). The potential impact from the tobacco supply chain (\$70M) is added to the upper value of packaging (making it \$94M). To estimate financial impacts from this risk, PMI used public data sources on typical cost shares for firewood and similar agricultural products and estimates on potential price increments resulting from supply chain disruptions due to increased ecosystem vulnerability. PMI estimated that risks of increased ecosystem vulnerability could raise farmers' production cost due to an estimated 16% price increase in the acquisition of sustainable firewood, increasing PMI's procurement costs above our metric for substantive financial impact (\$5M). PMI estimated financial impacts via modelled increments in firewood costs, along with total volumes of purchased tobacco and the ratio of volume being cured using fossil and renewable fuel sources annually. It was assumed that PMI procurement expenditure on tobacco would remain constant in business as usual scenario and increase by the same rate as diesel price under climate change scenarios.

Primary response to risk

Engagement with suppliers

Description of response

In 2016 PMI developed a Monitoring Framework (MF) for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with in 2020 and beyond, with a verification process starting in 2018. The audits are performed by a 3rd party and the first cycle concluded in 2020. As a result of the 3rd party audit conducted in 2020, all of our tobacco leaf suppliers are verified to be compliant to PMI's MF. PMI continually engages with tobacco leaf suppliers to support them in the implementation of activities to comply with the MF. PMI expects to mitigate the risk of future curing fuel cost increase by ensuring its availability and sustainability through a timely engagement with tobacco leaf suppliers and verification mechanism to ensure that all biomass used as fuel is sustainable. PMI considers that the response has been effective and that tobacco leaf suppliers implementing the MF are addressing this risk. Currently, above 97% of the curing fuel incl. firewood and biomass, is sustainable and traceable, which has decreased the risk and is expected to prevent future impacts. Furthermore, an assurance and monitoring framework is being designed and will be implemented in the non-Leaf supply chains as of 2021. In 2020, we developed and validated by a third party the first pillar of our framework, coupling the wood, pulp, and fibers' countries of origin with the holding of FSC or PEFC Chain of Custody certifications by our board and paper suppliers and their supply chain partners.

Cost of response

5400000

Explanation of cost of response

The cost of response is based on the annual budget allocated in 2020 to environmental projects (incl. implementation of the Monitoring Framework and associated activities to enable farmers to use sustainable fuels for tobacco curing) under the Good Agricultural Practices program across all regions, accounting for approx. \$4.9 million in total expenditures. The set annual budget (i.e. we set a single investment amount into the program and it is not possible to provide a breakdown) is allocated to initiatives to catalyze the adoption of improved and innovative practices by the farmers in our supply chain. It includes the costs to implement and verify the Monitoring Framework. It is expected that the same level of associated costs will continue after 2020. The cost of response for the non-Leaf supply chains is the estimated expenditure (\$0.5 million) to design and implement the remaining assurance framework across the supply base, as well as implementing a monitoring framework supported by innovative technologies to deliver the expected tangible results supporting our zero net deforestation commitments. Future potential costs to implement other specific initiatives needed to catalyze adoption of improved and innovative practices in our non-leaf supply chains are not yet evaluated and therefore not included in this figure. The full cost of response (\$5.4 million) is the sum of these \$4.9M for the tobacco supply chain and \$0.5M for non-tobacco supply chains.

Forest risk commodity

Timber products

Type of risk

Physical

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Increased severity of extreme weather events

Primary potential impact

Supply chain disruption

Company-specific description

Most of our wood-based materials are sourced from regions (Nordic European Countries, Russia accounting for more than 50% of our wood/pulp origin) that are going through changes in weather/precipitation patterns (e.g. more rain, less snow) – that could impact trees growth, soils degradation and logging/harvesting periods, creating potential future resource availability limitations. This would inevitably increase the prices of the pulp-based material we purchase. In addition, in Asia, some of the paper and pulp-based products we purchase originate from concessions that are located in peatland areas vulnerable to major fire events.

Timeframe

4-6 years

Magnitude of potential impact

Medium

Likelihood

More likely than not

Are you able to provide a potential financial impact figure?

Yes, an estimated range

Potential financial impact (currency)

<Not Applicable>

Potential financial impact figure - minimum (currency)

43000000

Potential financial impact figure - maximum (currency)

130000000

Explanation of financial

For PMI a risk of lack of sustainable and traceable wood-based materials' availability in the supply chain due to impacts of extreme weather events or other causes will inevitably be translated in prices increase for the paper and pulp-based products we purchase in an estimated range of 5% to 15% of the 2020 total spend with these

material categories.

Primary response to risk

Engagement with suppliers

Description of response

Our active risk management strategy aims to reduce the likelihood of supply chain disruptions due to physical climate risks through biodiversity and forest conservation. In 2019 PMI published the Zero Deforestation Manifesto (ZDM) aiming to achieve positive environmental impacts over the long term, including a set of targets to protect forests in our supply chain. As part of the ZDM, PMI is working with suppliers of paper and pulp-based products to move towards traceable and sustainable raw material sourcing. Achieving PMI's ZDM commitments will not only protect the forests but will also contribute to the development of ecosystems and communities that are more resilient to impacts from climate change, such as increased severity of weather events. To achieve our ZDM commitments PMI actively engages suppliers to communicate our sustainability expectations, increase our understanding of their current practices on deforestation risk mitigation and their exposure to physical climate risks. PMI considers its current approach to be effective as no major disruptions in the supply chain have taken place. PMI will continue to adapt and improve its strategy in the future, aiming to strengthen monitoring processes and progress towards targets, particularly in high-risk countries such as Indonesia and Brazil.

Cost of response

500000

Explanation of cost of response

The cost of response is the estimated internal investment (\$0.5 million), which should cover the design and implementation of the remaining assurance framework across the supply base, as well as the implementation of a monitoring framework supported by innovative technologies to deliver the expected tangible results supporting our zero net deforestation commitments. Future potential costs to implement other specific initiatives needed to catalyze adoption of improved and innovative practices in our non-leaf supply chains are not yet evaluated and therefore not included in this figure.

F3.2

(F3.2) Have you identified any forests-related opportunities with the potential to have a substantive financial or strategic impact on your business?

	Have you identified opportunities?
Timber products	Yes
Palm oil	<Not Applicable>
Cattle products	<Not Applicable>
Soy	<Not Applicable>
Other - Rubber	<Not Applicable>
Other - Cocoa	<Not Applicable>
Other - Coffee	<Not Applicable>

F3.2a

(F3.2a) For your selected forest risk commodity(ies), provide details of the identified opportunities with the potential to have a substantive financial or strategic impact on your business.

Forest risk commodity

Timber products

Type of opportunity

Resilience

Where in your value chain does the opportunity occur?

Supply chain

Primary forests-related opportunity

Improved supply chain engagement

Company-specific description & strategy to realize opportunity

PMI identified an opportunity to improve the company's resilience by managing forest risks related to the sourcing of tobacco by engaging the company's tobacco suppliers. The company has developed a strategy to increase resilience through the development and application of the Monitoring Framework (MF) for Sustainable Leaf Curing Fuels. As part of this framework, tobacco suppliers should comply with a series of sustainability criteria to prevent deforestation and was audited by a third party in 2020. The implementation of the Monitoring Framework since 2016 has increased PMI's engagement with tobacco suppliers and allowed us to closely collaborate with them, securing our supply of sustainably cured tobacco and increasing the company's resilience to price fluctuations. To realize the opportunity, PMI is working closely with tobacco suppliers by supporting them with technical assistance when they face challenges related to tobacco curing fuels sustainability and traceability associated to the implementation of the monitoring framework. This might entail several measures such as holding strategy sessions with the suppliers, financing country-specific risk assessments and providing technical advice. PMI through its regional offices holds in-person meetings with tobacco leaf suppliers to discuss sustainability matters including their progress on curing fuel sustainability and traceability. PMI also organizes conference calls and meetings as needed to provide technical assistance. It is expected that as a result of this engagement, suppliers will be able to prove sustainability and traceability in conformity with the Monitoring Framework principles when audited by a third party. For example, as a result of the enforcement of the MF in Philippines and Pakistan, in the 2020 third-party audit both markets achieved the 100% sustainable and traceable fuel used for curing. In 2020, firewood sustainability studies in Pakistan and Philippines were finalized which demonstrated that the fuel used for curing are coming from sustainable sources. These studies were done in collaboration with local NGO and local government.

Estimated timeframe for realization

Current - up to 1 year

Magnitude of potential impact

Medium-high

Likelihood

Virtually certain

Are you able to provide a potential financial impact figure?

Yes, an estimated range

Potential financial impact figure (currency)

<Not Applicable>

Potential financial impact figure – minimum (currency)

24000000

Potential financial impact figure – maximum (currency)

70000000

Explanation of financial impact figure

The potential financial impact reflects estimated benefits for farmers across our tobacco supply chain. We do not estimate direct potential financial benefits to PMI but rather indirect benefits to the company through supply chain improved resilience, including mitigation of future cost increments in the acquisition of raw materials. Another intangible benefit for PMI would be to position itself as a leading company collaborating with its suppliers to implement actions that contribute to a more sustainable future. To estimate financial impacts from this opportunity, PMI used public data sources on typical cost shares for firewood and similar agricultural products, as well as estimates on potential price increments resulting from supply chain disruptions due to increased ecosystem vulnerability. PMI estimated that this opportunity could reduce by 16% farmers' expected future costs related to acquisition of firewood, leading to the identification of a substantive opportunity according to our \$5M metric. PMI estimated financial impacts by using the modelled increments in firewood costs, along with total volumes of purchased tobacco and the ratio of volume being cured using fossil fuels as well as renewable fuel sources on an annual basis (lower range at 16% and upper range at 34%). It was then assumed that the PMI procurement expenditure on tobacco would remain constant in a business as usual scenario and increase by the same rate as diesel price under climate change scenarios.

Forest risk commodity

Timber products

Type of opportunity

Resilience

Where in your value chain does the opportunity occur?

Supply chain

Primary forests-related opportunity

Ensuring supply chain resilience

Company-specific description & strategy to realize opportunity

Over 50% of our wood-based direct materials originate from regions experiencing changes in weather/precipitation patterns, e.g. more rain, less snow, namely Nordic European Countries and Russia, posing potential future resource availability limitations. The resilience of our pulp-based materials supply chain and the associated natural ecosystems to climate change increases if forests are sustainably managed and will support to mitigate the risk on resource availability and price fluctuation. Through PMI's Responsible Sourcing Principles, we set mandatory requirements to all our suppliers and aim to achieve measurable, tangible improvements in our supply chain. With the publication of its Zero Deforestation Manifesto (ZDM), PMI has increased the focus on its wood-based material supply chain. To help achieve our zero deforestation commitments, we engage with our suppliers to communicate our expectations, increase our understanding of their current practices and set targets for the materials they supply. We have performed webinars, individual interviews and commissioned third parties to perform onsite visits. In 2020 we performed a follow up audit at one of our wood-based material suppliers located in Asia resulting in the closing of all 17 corrective actions based on 14 findings identified during the initial audit, (incl. non-conformities and areas for improvement).

Estimated timeframe for realization

>6 years

Magnitude of potential impact

Medium

Likelihood

Likely

Are you able to provide a potential financial impact figure?

No, we do not have this figure

Potential financial impact figure (currency)

<Not Applicable>

Potential financial impact figure – minimum (currency)

<Not Applicable>

Potential financial impact figure – maximum (currency)

<Not Applicable>

Explanation of financial impact figure

As PMI is still analysing options to realize this opportunity no direct financial benefits have been estimated for the company in relation to the opportunity in the short to medium, or even long, term. The estimation of financial benefits will be revisited once PMI has a more comprehensive understanding of the different direct and indirect environmental benefits that could arise from this opportunity, as well as a framework to account and report on them (for example, natural capital). However, the outcome of this opportunity would enable PMI to build a stronger and more resilient value chain, and that would be capable of positioning itself as a leading company collaborating with its suppliers to implement actions that contribute to a more sustainable future.

F4. Governance

F4.1

(F4.1) Is there board-level oversight of forests-related issues within your organization?

Yes

F4.1a

(F4.1a) Identify the position(s) of the individual(s) (do not include any names) on the board with responsibility for forests-related issues.

Position of individual	Please explain
Board-level committee	PMI's Board of Directors (BoD) and its Committees are responsible to foster the company's long-term success, incl. to set broad corporate policies, strategic direction, and oversee management, who is responsible for daily operations. The BoD mandated the Nominating and Corporate Governance Committee of the BoD to oversee sustainability issues; these include deforestation and increased pressure on forest resources relevant to our value chain. As mentioned below, forest related risks could disrupt our supply chain and could increase costs of our materials and operations, potentially reducing volumes, revenues and net earnings. For example, in 2020, the annual budget approved by the BoD encompasses the implementation of our sustainability strategy and the Zero Deforestation Manifesto commitments (incl. supplier specific and other forest-related projects), and BoD receives updates on performance and targets vs. budget thru the year incl. sustainability and climate change.
Board-level committee	Since 2018 the Nominating and Corporate Governance Committee (NCGC) of the Board, composed of 5 Board of Director members in 2020, and at the time of the publication of the 2021 proxy statement, has overseen PMI's sustainability strategies and advises the board on sustainability matters, incl. forest-related issues, aiming to actively reduce potential negative impacts of our business on the environment and forest resources. As an example of a climate-related decision-making process in 2020 the NCGC reviewed the 2019 Sustainability Report which represent the main external communication of PMI on sustainability performance, including our forest related Zero Deforestation Manifesto commitments.
Board-level committee	In 2020, the Audit Committee of the BoD, composed by 6 BoD members, at the time of the publication of the 2021 proxy statement oversees the assessment and management of the company risks and provide recommendations to executive management on climate change related risks, these risks may lead to increased pressure on natural resources, including forest resources, and conflict with other users, relevant to our direct operations and/or our supply chain. Such risks could disrupt our supply chain and could increase costs of our materials and operations, potentially reducing volumes, revenues and net earnings.

F4.1b

(F4.1b) Provide further details on the board's oversight of forests-related issues.

	Frequency that forests-related issues are a scheduled agenda item	Governance mechanisms into which forests-related issues are integrated	Please explain
Row 1	Scheduled - some meetings	Monitoring implementation and performance Overseeing acquisitions and divestiture Overseeing major capital expenditures Providing employee incentives Reviewing and guiding annual budgets Reviewing and guiding business plans Reviewing and guiding corporate responsibility strategy Reviewing and guiding major plans of action Reviewing and guiding risk management policies Reviewing and guiding strategy Reviewing innovation / R&D priorities Setting performance objectives	The Board of Directors (BoD) oversees PMI's full range of activities including establishing corporate policies, setting strategic direction, and overseeing Management, which is responsible for the day-to-day operations of the company, using the selected governance mechanism. The BoD approves the company's annual budget and receives updates on the company's performance and targets against the budget, including those related to forests. The BoD has established various standing Committees to assist with the performance of its responsibilities including a Corporate Risk Governance Committee that in 2020 comprised the COO, the CFO, and other members of our Company Management and senior leaders from relevant functions. The BoD meets typically 6 times per year with additional meetings held as necessary and is regularly informed by Management and the Nominating and Corporate Governance Committee (NCGC) of the company's performance, future plans, R&D priorities and significant issues affecting the business. The NCGC oversees, the Company's sustainability strategies and performance and advises the BoD on sustainability matters. In 2020 the NCGC reviewed the 2019 sustainability report, including our forest related Zero Deforestation Manifesto commitments and recommendations for engagement. The Committee reflected on potential audiences for the engagement based on the information in the report and made engagement recommendations to the CSO.

F4.2

(F4.2) Provide the highest management-level position(s) or committee(s) with responsibility for forests-related issues (do not include the names of individuals).

Name of the position(s) and/or committee(s)	Responsibility	Frequency of reporting to the board on forests-related issues	Please explain
Other C-Suite Officer, please specify (Senior Vice President, Operations)	Both assessing and managing forests-related risks and opportunities	Quarterly	A member of the Company Management (CM), the Senior Vice President, Operations (SVP Operations) is tasked with addressing climate change risk across all activities of the company, incl. forest-related ones. In 2020, our SVP Operations reports directly to COO and is delegated with operational responsibility, incl. maintaining robust business resiliency, risk assessment processes, and strategies to support business continuity. Together with the CM, they report on these issues to the Nominating and Corporate Governance Committee and Audit Committee of the BoD on quarterly basis, via presentation incl. strategies and performance progression. Our SVP, Operations examines and monitors climate change-related issues, incl. deforestation and other forest related risks, ensuring that risk assessment and management are integrated into long-range plans, objectives, budgets, and performance review processes. He is responsible to address these risks (e.g., impact of climate change which may influence imbalances in supply and demand due to natural disasters, change in weather pattern, etc.) as they could lead to disruption of supply chains and could increase costs of our materials and operations. SVP Operations leads the Operations Sustainability Function (OSF) that reports to him and is tasked to drive environmental strategies and embed them into the core of our business, due to the strategic importance of climate-related issues on our operations.
Chief Operating Officer (COO)	Both assessing and managing forests-related risks and opportunities	Quarterly	In 2020, PMI had a COO who was a member of PMI's Company Senior Management reporting to the CEO; he was updated regularly by the SVP, Operations on climate change issues, incl. forest related issues. In 2020, the COO and SVP, Operations were the highest management level for climate-related issues. They were responsible for monitoring and reviewing PMI's objectives, strategies, and action plans related to climate change, incl. deforestation and other forest related issues, with the CEO, and for reporting their findings to the Nominating and Corporate Governance Committee and Audit Committee of the Board of Directors. As of May 5, 2021, there was a succession in PMI Chief Executives vs 2020, the former Chief Operating Officer (COO) was promoted to Chief Executive Officer (CEO) and the COO position no longer exists; former 2020 CEO took the responsibility of Executive Chairman of the Board of Directors.
Other, please specify (Sustainability Committee)	Other, please specify (Overseeing PMI's sustainability work)	Annually	The Sustainability Committee – composed of the company's CEO, CFO, Senior VP Operations, and other members of the Company Management – meets quarterly to review and validate PMI strategy, commitments, goals, and annual reporting. The review encompasses the oversight of PMI's sustainability work, incl. deforestation and other forest related issues. PMI's sustainability strategy is shaped by a formal sustainability materiality assessment, which was updated in 2019, re-prioritizing the most relevant sustainability topics for PMI. Starting from 2020, to help manage these topics from a global and sustainability perspective, within our CM, members are responsible for driving progress and delivering on our sustainability targets within their respective functions (e.g. mitigating climate change, decarbonizing our value chain and combating deforestation are addressed by SVP Operations). The Sustainability Committee updates the Board of Directors at least once a year.
Chief Sustainability Officer (CSO)	Other, please specify (Leading the integration of sustainability, including forest topics, across PMI)	Annually	PMI's CSO reports to our CFO and leads the strategy of integration of sustainability, incl. deforestation and other forest related issues across our business. PMI's CSO heads and manages PMI's Corporate Sustainability Team, reports on progress to the Sustainability Committee on a quarterly basis and updates the Board of Directors at least once a year.

F4.3

(F4.3) Do you provide incentives to C-suite employees or board members for the management of forests-related issues?

	Provide incentives for management of forests-related issues	Comment
Row 1	Yes	

F4.3a

(F4.3a) What incentives are provided to C-Suite employees or board members for the management of forests-related issues (do not include the names of individuals)?

	Role(s) entitled to incentive?	Performance indicator	Please explain
Monetary reward	Corporate executive team Chief Executive Officer (CEO) Other, please specify (Company Management, Middle management, Sustainability Managers, Employees)	Achievement of commitments and targets	The BoD considers that environmental, social and governance (ESG) factors, including protecting the environment and forest resources are relevant to the company's business and long-term success. The Compensation and Leadership Development Committee of PMI's BoD more clearly reflected the Company's commitment to having sustainability at the core of its corporate strategy in the Company's executive compensation program. Progress against the strategic priorities is included in our compensation program, for the management group (i.e., corporate executive team incl. CEO) and other eligible employees. Certain members of our Company Management (e.g. SVP Operations) and middle management, incl. business unit managers, sustainability managers and their reporting employees, covering sustainability, are appraised each year for performance against targets, including those related to forests. This is measured by a series of indicators including results from PMI's progress towards its Zero Deforestation Manifesto targets (e.g., zero net deforestation) and the recognition as an A-list company under the CDP guidelines in Forest. As an example of the KPI, as indicated in the published ZDM the commitment and target of the company in 2020 is to achieve zero gross deforestation of primary and protected forest associated with tobacco supply chain in 2020. Towards the end of the year PMI assesses progress towards its sustainability targets as the threshold of success, therefore rewards are provided if progress is either linear to the overall target or exceeding a linear trend over the reporting year. These indicators were selected as they are aligned with the company's vision and they allow PMI to objectively quantify the progress of the company in the field of sustainable forest management and sustainability.
Non-monetary reward	Corporate executive team Chief Executive Officer (CEO) Other, please specify (All employees)	Achievement of commitments and targets	Behavior change related indicator: annually many affiliates continued to perform voluntary awareness and promotion campaigns/ programs in order to increase employees' active participation in sustainability, including Environment and Health and Safety (EHS) programs, covering a range of topics such as environmental awareness, energy consumption reduction, waste reduction, tree planting and community gardens. Awards and recognition for best practices form a core element of such campaigns and are awarded in line with the achievement of sustainability commitments and targets. Achievement of commitments and targets was selected as an indicator of success as it allows PMI to objectively quantify the progress of the company in the field of forests and sustainability. Our carbon footprint reduction targets are also part of our sustainability objectives and commitments. PMI uses progress towards its sustainability targets as the threshold of success, therefore rewards are provided if progress is either linear to the overall target or exceeding a linear trend. This is measured by a series of indicators including results from PMI's monitoring framework, GHG accounting, water accounting, as well as other internal metrics such as the rapid progress towards the acceleration of our smoke free vision.

F4.4

(F4.4) Did your organization include information about its response to forests-related risks in its most recent mainstream financial report?

No, but we plan to do so in the next two years

F4.5

(F4.5) Does your organization have a policy that includes forests-related issues?

Yes, we have a documented forests policy that is publicly available

F4.5a

(F4.5a) Select the options to describe the scope and content of your policy.

	Scope	Content	Please explain
Row 1	Company-wide	<p>Commitment to eliminate conversion of natural ecosystems</p> <p>Commitment to eliminate deforestation</p> <p>Commitment to remediation, restoration and/or compensation of past harms</p> <p>Commitment to protect rights and livelihoods of local communities</p> <p>Commitments beyond regulatory compliance</p> <p>Commitment to transparency</p> <p>Commitment to stakeholder awareness and engagement</p> <p>Commitment to align with the SDGs</p> <p>Recognition of the overall importance of forests and other natural ecosystems</p> <p>Description of business dependency on forests</p> <p>Recognition of potential business impact on forests and other natural habitats</p> <p>Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy</p> <p>List of timebound milestones and targets</p> <p>Description of forests-related standards for procurement</p>	<p>PMI's public policy called "Zero Deforestation Manifesto" and its Responsible Sourcing Principles cover the use of wood fuel for curing tobacco, paper and pulp-based products used for manufacturing in all countries where PMI operates and sources materials from. Since these materials are key for the manufacturing of PMI's products any disruptions on the availability or in their quality could directly translate in financial impacts for PMI. Thus, PMI's dependency on forests and its associated ecosystem services are covered in our policy which is revised and updated yearly if necessary. PMI recognizes that its operations (direct and supply chain) can have potential impacts on forests and natural habitats. Therefore, it has established time bound SDG-aligned commitments and targets beyond regulatory compliance to tackle them including: zero net deforestation of primary and protected forest, zero net deforestation of managed natural forest, no conversion of natural ecosystems, net positive impact and restoration of forests associated with the tobacco supply chain. Progress on these is disclosed in our Sustainability Report as part of our commitment to transparency. Since 2002 PMI launched its Good Agricultural Practices (GAP), defining the principles and standards that must be met by all who grow and supply tobacco to PMI. GAP also aims to engage with suppliers and improve socioeconomic conditions and protect the rights of the people and local communities involved in tobacco production. Our Monitoring Framework for Sustainable Leaf Curing Fuel was launched in 2016 and since then it has been our main initiative to tackle deforestation risks. We collect data on multiple environmental indicators and monitors the percentage of compliant farmers. The results are used internally to track PMI progress towards its forest commitments, to identify and engage suppliers and farmers failing to adopt best practices or from high-risk areas, and to make decisions regarding projects to be implemented. This decision-making process is exemplified by our work in the Philippines in 2020: through our risk assessment we identified a change in tobacco farmer base sourcing and updated the local risks maps, identified farmers near to forests ecosystems, and developed management plans and training sessions with 3,300 farmers to be able to trace their firewood and comply with PMI's policy.</p>

(F4.5b) Do you have commodity specific sustainability policy(ies)? If yes, select the options that best describe their scope and content.

	Do you have a commodity specific sustainability policy?	Scope	Content	Please explain
Timber products	Yes	Company-wide	Commitment to eliminate conversion of natural ecosystems Commitment to eliminate deforestation Commitment to remediation, restoration and/or compensation of past harms Commitment to protect rights and livelihoods of local communities Commitments beyond regulatory compliance Commitment to transparency Commitment to stakeholder awareness and engagement Commitment to align with the SDGs Recognition of the overall importance of forests and other natural ecosystems Description of business dependency on forests Recognition of potential business impact on forests and other natural ecosystems Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy List of timebound commitments and targets Description of forests-related standards for procurement	PMI's public policy called "Zero Deforestation Manifesto" and its Responsible Sourcing Principles cover the use of wood fuel for curing tobacco, paper and pulp-based products used for manufacturing in all countries where PMI operates and sources materials. Since these materials are key for the manufacturing of PMI's products any disruptions on the availability or in their quality could directly translate in financial impacts for PMI. Thus, PMI's dependency on forests and its associated ecosystem services are covered in our policy which is revised and updated yearly if necessary. PMI recognizes that its operations (direct and supply chain) can have potential impacts on forests and natural habitats. Therefore, it has established time bound SDG-aligned commitments and targets beyond regulatory compliance to tackle them including: zero net deforestation of primary and protected forest, zero net deforestation of managed natural forest, no conversion of natural ecosystems, net positive impact and restoration of forests associated with the tobacco supply chain. Progress on these is disclosed in our Sustainability Report as part of our commitment to transparency. Since 2002 PMI launched its Good Agricultural Practices (GAP), defining the principles and standards that must be met by all who grow and supply tobacco to PMI. GAP also aims to engage with suppliers and improve socioeconomic condition and protect the rights of the people and local communities involved in tobacco production. Our Monitoring Framework for Sustainable Leaf Curing Fuel was launched in 2016 and since then it has been our main initiative to tackle deforestation risks. We collect data on multiple environmental indicators and monitors the percentage of compliant farmers. The results are used internally to track PMI progress towards its forest commitments, to identify and engage suppliers and farmers failing to adopt best practices or from high-risk areas, and to make decisions regarding projects to be implemented. This decision-making process is exemplified by our work in the Philippines in 2020: through our risk assessment we identified a change in tobacco farmer base sourcing and updated the local risks maps, identified farmers near to forests ecosystems, and developed management plans and training sessions with 3,300 farmers to be able to trace their firewood and comply with PMI's policy.
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

	Do you have a commodity specific sustainability policy?	Scope	Content	Please explain
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F4.6

(F4.6) Has your organization made a public commitment to reduce or remove deforestation and/or forest degradation from its direct operations and/or supply chain?

Yes

F4.6a

(F4.6a) Has your organization endorsed any of the following initiatives as part of its public commitment to reduce or remove deforestation and/or forest degradation?

Other, please specify (PMI is a member of WBCSD Forest Solutions Group since 2019 in line with our strategy of protecting forests and promoting their sustainable management through adoption of shared best practices and benchmark with other sectors' champion companies.)

F4.6b

(F4.6b) Provide details on your public commitment(s), including the description of specific criteria, coverage, and actions.

Forest risk commodity

Timber products

Criteria

- No conversion of natural ecosystems
- Zero gross deforestation/ no deforestation
- Zero net deforestation
- No new development on peat regardless of depth
- Restoration and compensation to address past deforestation and conversion
- Avoidance of negative impacts on threatened and protected species and habitats
- No trade of CITES listed species
- No land clearance by burning or clearcutting
- No conversion of High Conservation Value areas
- No conversion of High Carbon Stock forests
- Secure Free, Prior and Informed Consent (FPIC) of indigenous people and local communities
- Promotion of gender equality and women's empowerment
- Adoption of the UN International Labour Organization principles
- Resolution of complaints and conflicts through an open, transparent and consultative process
- Facilitate the inclusion of smallholders into the supply chain
- No sourcing of illegally produced and/or traded forest risk commodities
- No sourcing of forest risk commodities from unknown/controversial sources

Operational coverage

Supply chain

% of total production/ consumption covered by commitment

100%

Cutoff date

2006

Commitment target date

2026-2030

Please explain

To achieve our Zero Deforestation Manifesto (ZDM) forest commitments we have two core action areas: supplier engagement and third-party verification. As a result of the deforestation risk assessment of our value chain, we identified priority suppliers to be engaged. In 2018 we developed a plan for third party audits covering: land rights (including FPIC), environmental compliance, environmental management, resource consumption and waste minimization. Based on a risk assessment in our packaging board and paper supply chain, we conducted an audit in 2019 at one of our major supplier of our wood-based material located in Asia with the support of expert third parties in environmental and human rights fields. A corrective action plan was proposed by the supplier to address the findings, and a follow up audit was planned by the end of 2020. In 2020 we performed a follow up audit resulting in the completion of all 17 corrective actions based on 14 findings identified during the initial audit, (incl. non-conformities and areas for improvement). Examples of corrective actions are capacity building of staff for FPIC topics in regions impacted by procedures of land conflict resolution, enhancement of community development program to support conflict resolution effort by providing alternative livelihood, or community programs aimed at increasing the security in the concession areas. Since 2018 we have implemented a third-party audit process to verify the compliance of our suppliers with the Monitoring Framework (MF) for Sustainable Leaf Curing Fuels. As part of this, suppliers must submit traceability evidence proving that their firewood is legal and that there was no conversion of natural habitats for its production, with a cut-off date of 2006. Through the implementation of the MF we expect our zero net deforestation commitments to be achieved. As a result of the MF third party verification we have confirmed that 100% of the flue cured tobacco we purchased in 2020 did not pose any risk of deforestation to Old Growth Forest (e.g. primary and high conservation value forests in Malawi and Mozambique). Another example of our work with farmers to prevent deforestation and contribute to compensate areas where past deforestation has taken place is the adoption of live barns in Malawi and Mozambique, where termites eat the timber traditionally used in curing barns, requiring farmers to replace them regularly by further cutting trees. To tackle this issue, PMI developed the concept of the "live barn" – a structure of living trees which support the curing poles and remain in place for many years. Since 2014, PMI suppliers have grown more than 108,800 such barns. In 2020 more than 19,000 of the planted barns have grown to the right dimensions and are being used to cure tobacco. Progressively, the plan is that all contracted Burley tobacco farmers in Malawi and Mozambique will have live barns planted. This program will help farmers prevent deforestation and restore the environment and enhance biodiversity. One key objectives of the PMI's Good Agricultural Practices, which has been active since 2002, and the ZDM, is the improvement of crop quality and productivity in our agricultural supply chain. The sustainable improvement of tobacco productivity has a positive impact to reduce land requirements and therefore releasing pressure on natural ecosystem and conversion of it. Several projects have been conducted in 2020 together with our tobacco suppliers in order to achieve higher yield and better quality such as innovations through deployment of mechanization, curing barn improvements, and optimization of agronomic inputs. In Brazil, PMI has continued in 2020 the innovative way of producing tobacco all year round, as compared to normal tobacco production which can only be done once a year, generating higher volume availability without expanding the land or converting natural ecosystems in order to grow the additional volume.

F5. Business strategy

F5.1

(F5.1) Are forests-related issues integrated into any aspects of your long-term strategic business plan, and if so how?

	Are forests-related issues integrated?	Long-term time horizon (years)	Please explain
Long-term business objectives	Yes, forests-related issues are integrated	11-15	Forest related issues have been integrated in PMI's long-term business objectives since 2016, when PMI worked with Business for Social Responsibility (BSR) to identify the areas that are most significant to both our business sustainability and to our stakeholders and prioritized them, including risks, opportunities and emerging themes that required management action and business planning. In 2019, we worked with BSD Consulting, part of the ELEVATE company which is a leading business risk and sustainability solution provider, to carry out a comprehensive sustainability materiality assessment and further strengthen PMI's sustainability materiality assessment process. The assessment, which fostered transparency and credibility, enabled us to further embed sustainability across the company, and specifically forest-related issues which was identified as an important topic to be incorporated into PMI's sustainability strategy. Since 2016, PMI has continued to integrate forests issues in long-term business objectives, particularly through the development of metrics and frameworks to inform our business strategy, as well as the establishment of targets and goals to ensure a sustainable supply of raw materials. In 2020 PMI continued to use its Monitoring Framework to verify suppliers' sustainability attributes and identify additional sustainability risks. As Brazil was identified as a high-risk region for the company, PMI is now working with its agronomy team, tobacco suppliers, an external agency and a local university to further validate the sustainability of firewood sources. Through such case studies PMI makes sure that the company monitors progress on achieving a sustainable supply of raw materials, which are essential both for the manufacturing of the company's products and long-term business objectives (11 -15 years). The indicated time frame was chosen as it is aligned with the company's forest related targets.
Strategy for long-term objectives	Yes, forests-related issues are integrated	11-15	Responsible sourcing and sustainable tobacco production are a strategic objective for PMI. For this reason, the company has set goals and developed long-term strategic plans to avoid deforestation, and reduce greenhouse gas emissions from the use of timber based fuels for tobacco curing, all of which has been integrated in our long-term strategy through the following three strategic initiatives: - Reduce fuel consumption rate via curing efficiency improvement and curing barn optimization programs; - Move from unsustainable timber fuels to sustainable curing fuel sources; - Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood or fossil fuels, where appropriate. For example, to implement the strategic initiative to move from unsustainable to sustainable curing fuel sources, PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. No Old Growth Forest cut 2. Renewable sources/Self-sufficient firewood 3. Full traceability. The global roadmap for sustainable firewood provides a timeline for the achievement of the three above targets, the set timeline for its achievement is until 2020. These targets will still be implemented beyond 2020 and annually the tobacco leaf suppliers will be assessed through a 3rd party audit. As an example, in 2020, as a result of our roadmap implementation 67% of flue-cured tobacco we purchased was cured using renewable and traceable fuels (vs. 51% in 2019) and verified by a third party. The time horizon was chosen because PMI wants to demonstrate its efforts and leadership on sustainability, climate change and forest-related issues in accordance with its business strategy which considers the transition to a smoke free world. Additionally, we developed Science Based Targets to be achieved by 2030 and 2040. In 2020, PMI continued to enforce its monitoring framework, as well as its risk assessment focusing on tobacco leaf, and paper and pulp-based products.
Financial planning	Yes, forests-related issues are integrated	11-15	Sustainable tobacco production is key for PMI and PMI has set goals and developed strategic plans to avoid deforestation and reduce greenhouse gas emissions from tobacco curing. As PMI is working towards achieving these goals, human and financial resources are allocated into long-term (11 -15 years) financial planning for forest related issues. For example, PMI developed its Monitoring Framework for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with and was audited by a third party in 2020. The Monitoring Framework requires tobacco leaf suppliers to ensure that 100% of the firewood and biomass used for tobacco curing is sustainable and traceable. The Monitoring Framework is an ongoing process and it is being implemented in 12 countries where PMI sources Flue Cured Virginia (FCV) tobacco, including Brazil, Argentina and Philippines, which represent some of PMI's main FCV origins. Since its design, careful financial planning including actions, and resources have been allocated to facilitate the achievement of PMI's forest-related objectives. For example, PMI's financial planning considers that sustainable wood fuel may come at a higher cost due to the increased efforts in traceability and verification in different geographies. These potential cost increments are integrated into PMI financial planning, and also into PMI's sustainability programs which aim to address potential risks and opportunities. PMI supported suppliers and farmers committed to achieve full sustainability driving efficiency by promoting collective purchase access to shared sustainable firewood suppliers. This approach was deployed between 2018 and 2020 in Pakistan, Brazil and Philippines.

F6. Implementation

F6.1

(F6.1) Did you have any timebound and quantifiable targets for increasing sustainable production and/or consumption of your disclosed commodity(ies) that were active during the reporting year?

Yes

F6.1a

(F6.1a) Provide details of your timebound and quantifiable target(s) for increasing sustainable production and/or consumption of the disclosed commodity(ies), and progress made.

Target reference number

Target 1

Forest risk commodity

Timber products

Type of target

Traceability

Description of target

We are committed to promoting the sourcing of wood-based materials from traceable, sustainable and legal sources, while protecting the rights and livelihoods of local communities. We have set a target to achieve 100% of the tobacco purchased without risk of deforestation of Old Growth Forest (primary and high conservation value forests) by 2020 and this was achieved. With the achievement of this target we expect to ensure zero gross deforestation of primary forests within our tobacco supply chain and contribute to our zero net deforestation commitments.

Linked commitment

Zero net/gross deforestation

Traceability point

Forest management unit

Third-party certification scheme

<Not Applicable>

Start year

2015

Target year

2020

Quantitative metric

<Not Applicable>

Target (number)

<Not Applicable>

Target (%)

100

% of target achieved

100

Please explain

Sustainable tobacco production is key for PMI and the company has set goals and developed strategic plans to reduce greenhouse gas emissions from tobacco curing as well as to tackle the risk of deforestation. The 3 strategic initiatives are: • Reduce fuel consumption rate via curing efficiency improvement and curing barn optimization programs; • Move from unsustainable to sustainable curing fuel sources; • Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood fuels or fossil fuels where appropriate. Following the deforestation risk assessment and identified risks and opportunities PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. No Old Growth Forest cut 2. Renewable sources/Self-sufficient firewood 3. Full traceability. The global roadmap for sustainable firewood provides a timeline for the achievement of the three targets above, the set timeline for their achievement is in 2020 and beyond. PMI has been implementing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel (referred to as Monitoring Framework) to monitor the progress towards its global targets. The monitoring framework is composed of four principles, and Principle 2 "Be Sustainable" focuses on sustainability and traceability of the fuel source. The purpose is to ensure that all origins switch to fuels of a demonstrated sustainable source such as biomass from waste agricultural residues or wood fuel from sources which are proven to be sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel and required traceability). PMI is supporting and engaging in capacity building activities with tobacco leaf suppliers to ensure they are able to comply with the Monitoring Framework (MF) by 2020 and beyond. Through the third-party verification process, we keep an unbiased track of our progress against our target of 100% by 2020. Our progress is on track and properly being reported. A third-party audit was conducted in 2020 for all our leaf tobacco suppliers where we source FCV tobacco and as a result of the audit, all of them were verified as 100% compliant with PMI's MF.

Target reference number

Target 2

Forest risk commodity

Timber products

Type of target

Assess and/or verify compliance

Description of target

We have set a target to reach 100% compliance with PMI's Monitoring Framework for Sustainable Leaf Curing Fuel in countries from which we source tobacco and that were identified with risk of deforestation of Old Growth Forest through our deforestation risk assessment and this target was achieved in 2020. The achievement of this target will ensure zero gross deforestation of primary forests within our tobacco supply chain and contribute to our zero net deforestation commitments.

Linked commitment

Zero net/gross deforestation

Traceability point

<Not Applicable>

Third-party certification scheme

<Not Applicable>

Start year

2017

Target year

2020

Quantitative metric

<Not Applicable>

Target (number)

<Not Applicable>

Target (%)

100

% of target achieved

100

Please explain

Sustainable tobacco production is key for PMI and the company has set goals and developed strategic plans to reduce greenhouse gas emissions from tobacco curing as well as to tackle the risk of deforestation. The 3 strategic initiatives are: • Reduce fuel consumption rate via curing efficiency improvement and curing barn optimization programs; • Move from unsustainable to sustainable curing fuel sources; • Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood fuels or fossil fuels where appropriate. Following the deforestation risk assessment and identified risks and opportunities PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. No Old Growth Forest cut 2. Renewable sources/Self-sufficient firewood 3. Full traceability. The global roadmap for sustainable firewood provides a timeline for the achievement of the three targets above, the set timeline for their achievement is until 2020 as the first cycle and will continue to be implemented beyond 2020. PMI has been implementing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel (referred to as MF) to monitor the progress towards its global targets. The MF is composed of four principles, and Principle 2 "Be Sustainable" focuses on sustainability and traceability of the fuel source and is represented by 5 indicators. The purpose is to ensure that all origins switch to fuels of a demonstrated sustainable source such as biomass from waste agricultural residues or wood fuel from sources which are proven to be sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel). PMI is supporting and engaging in capacity building activities with tobacco leaf suppliers to ensure they are able to comply with the MF by 2020 and beyond. Through the annual third-party verification process, which includes on-site visits, we ensure the progress against our target of full compliance by 2020 with the MF in the high-risk countries from where we source tobacco is on track and properly being reported, out of which the compliance on the 5 indicators of Principle 2 are assessed. As a result of the 3rd party audit that was conducted in 2020, all of our leaf tobacco suppliers achieved the target of 100% compliance with PMI's MF.

Target reference number

Target 3

Forest risk commodity

Timber products

Type of target

Engagement with direct suppliers

Description of target

To be defined as sustainable, tobacco production depends, among other criteria, on the sustainable management of forests in the growing areas we source tobacco from. We have therefore set clear goals and programs to tackle deforestation and prevent forest degradation in our tobacco supply chain together with our direct suppliers. We engage with and expect all our direct suppliers to support us in the implementation of our Zero Deforestation Manifesto and the achievement of the target of 100% of zero net deforestation of managed natural forest in our tobacco supply chain by 2025. With the achievement of this target we expect to ensure zero net deforestation of managed natural forests and no conversion of natural ecosystems within our tobacco supply chain.

Linked commitment

Zero net/gross deforestation

Traceability point

<Not Applicable>

Third-party certification scheme

<Not Applicable>

Start year

2019

Target year

2025

Quantitative metric

<Not Applicable>

Target (number)

<Not Applicable>

Target (%)

100

% of target achieved

53

Please explain

PMI's environmental strategy aims to mitigate the risk of negative environmental impacts through carbon footprint reduction, sustainable waste management, water stewardship and biodiversity and forest conservation with the aim to generate positive impact in the long-term. The engagement beyond our own operations is key, as it is where the most significant environmental impacts occur, especially when it comes to deforestation. Combating forest loss is critical for PMI as we depend on wood-based materials for our products, and a significant part of our environmental management efforts is devoted to halting deforestation and allow for forests to provide ecosystem services that are at the base of sustainable raw material production. The most relevant source of risk of deforestation from tobacco arises from the Virginia flue-cured (FC) tobacco curing process where firewood is used. To address the risk and prevent deforestation in its supply chain, PMI has implemented several programs including Good Agriculture Practices (GAP), the Monitoring Framework for Sustainable Leaf Curing Fuel (MF) and the Responsible Sourcing Practices (RSP) that prescribe the environmental protection. For the tobacco supply chain, we have set a target of zero net deforestation of managed natural forest for firewood by 2025. We work with all our direct suppliers towards traceable and sustainable wood fuels together with a thorough verification process by a 3rd party to assure the protection of forests against deforestation. In 2020 53% of the firewood used in the curing process of the FC sourced by PMI was traceable to forest management unit and verified by a 3rd party through our MF program. In order to further support the achievement of the 2025 target of 100% PMI aims to implement a more stringent forest monitoring tool to complement the implementation of the MF with higher level of traceability. Our direct suppliers are fundamental for the success of the program, incl. the successful deployment of the forest monitoring tool, and the achievement of the targets. They have the direct connections to farmers that rely on firewood for curing and, in most of the cases, the direct access to the forest woodlot managers that need to provide evidence of the traceability and sustainable management of the forest, according to the MF requirements, to be validated as an accepted vendor for firewood.

F6.2

(F6.2) Do you have traceability system(s) in place to track and monitor the origin of your disclosed commodity(ies)?

	Do you have system(s) in place?	Description of traceability system	Exclusions	Description of exclusion
Timber products	Yes	PMI has a harmonized and verifiable monitoring framework to monitor progress towards its sustainable leaf curing fuel roadmap's goals. Principle 2 of the monitoring framework focuses on sustainability and traceability and has one specific indicator focusing on tracing and documenting all the wood fuel used for tobacco curing activities to the source. This information is provided by farmers and curing centers annually and is used by PMI to identify sources of fuel that would not meet PMI's sustainability criteria. PMI requires the following documentation for audits: a. Purchased fuel: receipts of purchased fuels, including the name of the vendor and the amount of fuel purchased. For biomass, a verification of the source of the fuel is needed, including a report containing evidence of source. Suppliers with intermediaries need to provide a study from reliable sources such as universities, international organizations (e.g. FAO) and research institutes, describing the source of the purchased fuel. b. Farmer and community woodlot, commercial plantations from tobacco leaf suppliers and self-collected biomass: evidence that proves the source and amount of purchased fuel by specific source. For example, tobacco leaf suppliers in the Philippines using wood pellets to cure tobacco can submit contracts and receipts from the wood pellets supplier, and the correspondent government permits certifying the timber plantation. Third party audits took place in 2020. It is expected that the traceability system will continue beyond 2020. For its paper and pulp-based products supply chain, PMI uses its STEP (Sustainable Transformation Enables Performance) program as a supplier due diligence and performance program to assess supplier compliance with our Responsible Sourcing Principles (RSP). Suppliers are requested to answer a set of questions related to environmental compliance including traceability data regarding source of origin. We also check whether their organization have active certifications in place for its paper and pulp-based products, such as FSC and PEFC. PMI also requests suppliers to provide details on origins at national or subnational level as well as proportional breakdowns on an annual basis. In 2020, 99% of our paper and pulp-based products' volume were traceable at least at national level, and at sub national level for high-risk countries.	Not applicable	<Not Applicable>
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F6.2a

(F6.2a) Provide details on the level of traceability your organization has for its disclosed commodity(ies).

Forest risk commodity	Point to which commodity is traceable	% of total production/consumption volume traceable
Timber products	Country	8.4
Timber products	State or equivalent	16.4
Timber products	Municipality or equivalent	6.2
Timber products	Forest management unit	62.6
Timber products	Mill	6.3
Timber products	Not traceable	0.1

F6.3

(F6.3) Have you adopted any third-party certification scheme(s) for your disclosed commodity(ies)?

	Third-party certification scheme adopted?	% of total production and/or consumption volume certified
Timber products	Yes	15
Palm oil	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

F6.3a

(F6.3a) Provide a detailed breakdown of the volume and percentage of your production and/or consumption by certification scheme.

Forest risk commodity

Timber products

Third-party certification scheme

Other, please specify (Adoption of supplier certifications based on established third party standards)

Chain-of-custody model used

Not applicable

% of total production/consumption volume certified

15

Form of commodity

Primary packaging

Volume of production/ consumption certified

136588

Metric for volume

Metric tons

Is this certified by more than one scheme?

Yes

Please explain

Through our extensive supplier engagement programs (e.g., Monitoring Framework in Leaf, and STEP in Procurement) PMI collects information and verifies the sustainability of the wood-based materials it sources. In 2020, we developed and validated by a third party the first pillar of our framework, coupling the wood, pulp, and fibers' countries of origin with the holding of FSC or PEFC Chain of Custody certifications by our board and paper suppliers and their supply chain partners. We have a very thorough system to monitor suppliers' compliance to our deforestation manifesto and a strong component of it relies on fiber certification (through FSC, PEFC and SFI) for our paper and board suppliers. Unfortunately, as a tobacco company, we are not allowed to display any sustainability logo on our products. Due to this we require to our suppliers to comply with the strict requirements of certification standards (traceability with a chain of custody approach, risk-based assessment of their sourcing areas) but we have not implemented a paper-trail that goes with it (e.g., transaction numbers on invoices). We receive from our suppliers their CoC certificates together with a declaration of the percentage of certified product they deliver to us and the list of origins where the fiber is coming from. The data collected from the suppliers undergo 3rd party verification and this process is being done annually to all suppliers. In 2020, we calculated that 32 percent of the volume of board and paper, fine paper and cellulose acetate tow we sourced for our primary packaging were declared as certified fibers which came from suppliers certified to CoC Forest Stewardship Council (FSC) or CoC Programme for the Endorsement of Forest Certification (PEFC) standards. The remaining 64% are declared by our suppliers as controlled wood. For the case of wood-based curing fuels coming from our tobacco supply chain, for example, PMI is already requiring tobacco leaf suppliers to ensure the fuel's sustainability and traceability through specific on the ground activities as there is an existing challenge on imposing use of certified materials to small holder farmers. By combining the consumption of our direct materials and wood consumption on our tobacco supplier supply chain, the percentage certified volume becomes 15 percent.

F6.4

(F6.4) For your disclosed commodity(ies), do you have a system to control, monitor, or verify compliance with no conversion and/or no deforestation commitments?

	A system to control, monitor or verify compliance	Comment
Timber products	Yes, we have a system in place for our no conversion and/or deforestation commitments	<Not Applicable>
Palm oil	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

F6.4a

(F6.4a) Provide details on the system, the approaches used to monitor compliance, the quantitative progress, and the non-compliance protocols, to implement your no conversion and/or deforestation commitment(s).

Forest risk commodity

Timber products

Operational coverage

Supply chain

Description of control systems

In 2020, for the 1st pillar of our framework, wood, pulp and fibers traceability data are requested to suppliers as well as valid copies of FSC/PEFC CoC certificates. A country risk assessment, based on the FSC national risk assessment, has been performed and has identified risk levels for each country of origin. To address our Zero Deforestation Manifesto first target related to Packaging materials' risks of deforestation on primary and HCV forests, we have calculated the percentage of wood, pulp, and fibers' per country of origin classified as low risk that are covered by the holding of FSC or PEFC Chain of Custody certifications by our board and paper suppliers. Monitoring system to specifically ascertain compliance with our no deforestation commitments is implemented in all of tobacco growing areas(TGA) through the use of geospatial tool. With the use of Global Forest Watch (GFW) Pro, we were able to monitor deforestation risk in 65 mio ha of land area linked to PMI's supply chain.

Monitoring and verification approach

Geospatial monitoring tool

Third-party verification

% of total volume in compliance

81-90%

% of total suppliers in compliance

61-70%

Response to supplier non-compliance

Retain & engage

Procedures to address and resolve non-compliance with suppliers

Developing time-bound targets and milestones to bring suppliers back into compliance

Providing information on appropriate actions that can be taken to address non-compliance

Please explain

With the new tender performed for the 2020 volume of Packaging Board and Paper that PMI Procurement has launched, we have shared with the suppliers involved the targets and expectations for compliance, time bound within the contract duration. We have: i. shared with the relevant suppliers the Zero Deforestation Manifesto v2.0 for them to commit on as a prerequisite for business allocation. If no commitment reached then a gap closing agenda must be agreed upon and followed up during the contract duration; ii. the countries risk classification from our Risk Assessment as well as the required proofs of compliance expected by country risk level. These are being performed annually or before the contract renewal For the tobacco supply chain, we have set a target of zero net deforestation of managed natural forest for firewood by 2025. We work with all our direct suppliers to move towards traceable and sustainable wood fuels together with a thorough verification process by a third-party to assure the protection of forests against deforestation and the deforestation risk is monitored annually via geospatial tools. For instances that suppliers are not yet fully compliant, time bound actions plans are being developed together with the suppliers and progress is being monitored on a regular basis. The absence of clear commitment to act on issues identified or a persistent lack of action and improvement, may lead to contractual implications to the suppliers.

F6.6

(F6.6) For your disclosed commodity(ies), indicate if you assess your own compliance and/or the compliance of your suppliers with forest regulations and/or mandatory standards.

	Assess legal compliance with forest regulations	Comment
Timber products	Yes, from suppliers	<Not Applicable>
Palm oil	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>

F6.6a

(F6.6a) For you disclosed commodity(ies), indicate how you ensure legal compliance with forest regulations and/or mandatory standards.

Timber products

Procedure to ensure legal compliance

PMI's Good Agricultural Program (GAP) is a contractual requirement for all our leaf suppliers and contracted farmers, and mandates that local legal requirements are to be strictly followed. The program prescribes the compliance with forest regulations for the sustainable wood-based materials in our agricultural supply chain. GAP's implementation is supported on the ground by qualified and trained field technicians and is verified yearly through a third party. Furthermore, for the Virginia flue cured tobacco markets, the Monitoring Framework (MF) for Sustainable Leaf Curing Fuels requires tobacco leaf suppliers to ensure that 100% of the firewood and biomass used for tobacco curing is sustainable and traceable, ensuring compliance with local forest regulations. Since 2018 a third-party audit is in place to ensure and verify the MF implementation, with the first audit cycle that concluded in 2020. STEP (Sustainable Transformation Enables Performance) is the supplier due diligence and performance program to achieve supplier compliance with our Responsible Sourcing Principles (RSP). STEP is based on the risk management approach that guides our supply chain due diligence management framework. It serves as the backbone for sustainably managing our first-tier suppliers; in some cases, second-tier suppliers are also included. Through STEP supplier due diligence program, suppliers are requested to answer a set of questions related to environmental compliance including if they have in place a procedure to regularly update its register of applicable environmental legislation and regulations, through which the compliance with forest regulations and/or mandatory standards are addressed. In addition, high-risk suppliers undergo a desktop audit. According to the questionnaire results and, as applicable, desktop audit, the supplier risk profile may be re-evaluated and require further due diligence. E.g., a medium-risk supplier that did not achieve the minimum acceptable RSP compliance will be required to undergo a desktop and/or an on-site audit. Following both types of audits, corrective action plans are defined and implemented. PMI considers these programs and tools to be sufficient to ensure legal compliance within operations and supply chain, as these are aligned with all local regulation as well as PMI's policies, which are often more stringent.

Country/Area of origin

Argentina
Australia
Brazil
Indonesia
Mozambique
Philippines
Thailand

Law and/or mandatory standard(s)

General assessment of legal compliance
Australia Illegal Logging Prohibition Act
Forest Law - Argentina
Brazilian Forest Code
Other, please specify (Responsible Sourcing Principles; Good Agricultural Practices; Monitoring Framework for Sustainable Leaf Curing Fuel)

Comment

As stated in our Zero Deforestation Manifesto we are committed to sourcing wood-based materials from traceable, sustainable and legal sources. Also, a general assessment of legal compliance is performed through our STEP program that assesses suppliers' due diligence. During this process, we ask our suppliers to demonstrate, by providing physical evidences, that they keep and regularly update a register of environmental legislation, that their environmental strategy and plans in place meet relevant local environment protection legislation, and that they have a documented Environmental Management System that has undergone a third party assurance / certification to ISO 14001:2015 or equivalent which requires a monitoring of legal environmental compliance.

F6.7

(F6.7) Are you working with smallholders to support good agricultural practices and reduce deforestation and/or conversion of natural ecosystems?

	Are you working with smallholders?	Type of smallholder engagement approach	Smallholder engagement approach	Number of smallholders engaged	Please explain
Timber products	Yes, working with smallholders	Supply chain mapping Capacity building Financial and commercial incentives	Supplier questionnaires on environmental and social indicators Developing or distributing supply chain mapping tool Supplier audits Offering on-site technical assistance and extension services Providing agricultural inputs Disseminating technical materials Organizing capacity building events Investing in pilot projects Supporting smallholders to clarify and secure land tenure	280000	Through PMI's Good Agricultural Program (GAP) all our tobacco leaf suppliers and contracted farmers are engaged, with an estimated 280,000 smallholder farmers (out of 285,900) covered by the program in 2020. GAP's implementation is supported on the ground by qualified and trained field technicians (FT) and verified yearly through a third party. During regular on-site visits FT performs a range of activities, from dissemination of technical materials, provision of agricultural inputs (e.g. fertilizers), to data collection on social and environmental indicators. In collaboration with our suppliers, capacity building and training sessions are organized for smallholder farmers to increase capabilities on the ground and support the correct implementation of GAP and to prevent and reduce deforestation and/or conversion of natural ecosystems at the growing areas we source from. Based on a continuous improvement approach, pilot projects are developed and implemented within our tobacco supply chain, incl. those aimed at smallholder farmers. In 2020, Philip Morris Brazil in partnership with Produzindo Certo Aliança da Terra, continues in the project to trial the Produzindo Certo Platform (PCP), which will be expanded until year 2022, with the aim of bringing to partner farmers a guiding and monitoring tool to improve farming practices, bringing social and environment sustainability improvements. The approach consists of three phases: i) environmental diagnosis of the farm; ii) development of an action plan and iii) monitoring and evaluation of achieved results. In 2020, the farmers join the platform by voluntary engagement and commit to the implementation of the action plan established for the farm. The program monitors the farm's forestry management practices by assessing legal conformity, monitoring of areas of preservation and native vegetation, firewood source, firewood consumption and firefighting equipment availability. The pilot covered 123 smallholder farmers in Rio Grande do Sul (BR). Furthermore, for the Virginia flue cured tobacco markets, the Monitoring Framework (MF) for Sustainable Leaf Curing Fuels requires tobacco leaf suppliers to provide capacity building activities to local stakeholders, incl. smallholder farmers. Since 2018 a third-party audit is in place to verify the MF implementation, with the audit cycle expected to be concluded in 2020.
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F6.8

(F6.8) Are you working with your direct suppliers to support and improve their capacity to comply with your forests-related policies, commitments, and other requirements?

	Are you working with direct suppliers?	Type of direct supplier engagement approach	Direct supplier engagement approach	% of suppliers engaged	Please explain
Timber products	Yes, working with direct suppliers	Capacity building	Offering on-site training and technical assistance Organizing capacity building events	51-60%	In 2019 and 2020, following the publication of our Zero Deforestation Manifesto (ZDM), our main strategy of engagement is to organize webinars and training sessions with our most relevant suppliers, covering topics related to deforestation risks, in our tobacco supply chain, as well as in the paper and pulp-based products supply chain (Tier 1 are acetate tow, shipping cases and fine papers). From 117 suppliers a total of 53 participated in the webinar and training sessions. These suppliers account for 58% of the 2019 tobacco spend and 90% of the 2019 paper and pulp-based products spend. In 2019 and 2020 6 webinars were carried out aimed at sharing with our supplier base the content of the commitments taken by PMI towards our long term forest positive strategy, as well as our two-pronged approach: First - engaging with suppliers of tobacco, and paper and pulp-based products to move towards traceable and sustainable raw material sourcing; second, Third-party verification. A survey was answered by 55% of the webinars' participants. Among the list of 7 questions, 96% found that PMI successfully outlined the objectives of ZDM. 97% consider that objectives and commitments set by the ZDM are realistic and achievable in the timeframe indicated by PMI. In the updated ZDM to be published in February 2021, PMI has extended the reach of the commitments: - from zero net deforestation on Primary and protected forests to Zero gross - to new product categories [Marketing materials, case labels] - to conversion of natural eco systems. - to free prior informed consent. Similar to the training sessions that were conducted in the roll out the ZDM and with the release of the updated version of the ZDM, new webinars and trainings will be organized in 2021, in order to communicate extended expectations and collect suppliers' commitments accordingly.
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F6.9

(F6.9) Are you working beyond your first-tier supplier(s) to manage and mitigate deforestation risks?

	Are you working beyond first tier?	Type of engagement approach with indirect suppliers	Indirect supplier engagement approach	Please explain
Timber products	Yes, working beyond first tier	Supply chain mapping Capacity building	Supplier questionnaires on environmental and social indicators On-site meetings with indirect suppliers Supplier audits Offering on-site training and technical assistance Disseminating technical materials Participating in workshops Investing in pilot projects	Through PMI's Good Agricultural Program (GAP) all our tobacco leaf suppliers and an estimated 285,900 contracted farmers are engaged, and participate to the program in 2020. GAP's implementation is supported on the ground by qualified and trained field technicians (FT) and is verified yearly through a third party. During regular on-site visits FT perform a range of activities from the dissemination of technical materials, provision of agricultural inputs (e.g. fertilizers), to data collection on social and environmental indicators. In collaboration with our suppliers, capacity building and training sessions are organized for farmers to increase capabilities on the ground, support the correct implementation of GAP and to prevent and reduce deforestation and/or conversion of natural ecosystems at the growing areas we source from. Based on a continuous improvement approach pilot projects are implemented within our tobacco supply chain, including indirect suppliers such as service providers. In 2020, Philip Morris Brazil continue working with Produzindo Certo Aliança da Terra, in the project to trial the Produzindo Certo Platform (PCP), which will be expanded until year 2022. The platform has the aim to enable partnership between farmers, leaf suppliers and the service provider, providing a guiding and monitoring tool to improve farming practices, bringing social and environmental sustainability improvements. The approach consists of 3 phases: i) environmental diagnosis of the farm; ii) development of an action plan and iii) monitoring and evaluation of achieved results. In 2020, the farmers join the platform by voluntary engagement and commit to the implementation of the action plan established for the farm. The program monitors the farm's forestry management practices by assessing legal conformity, monitoring of areas of preservation and native vegetation, firewood source and consumption and firefighting equipment availability. The pilot covered 123 smallholder farmers in Rio Grande do Sul (BR). Furthermore, for the Virginia flue cured tobacco markets, the Monitoring Framework (MF) for Sustainable Leaf Curing Fuels requires tobacco leaf suppliers to provide capacity building activities to local stakeholders, incl. indirect suppliers. Since 2018 a third-party audit is in place to ensure and verify the MF implementation, with the audit cycle concluded in 2020.
Palm oil	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Cattle products	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Soy	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Rubber	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Cocoa	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>
Other - Coffee	<Not Applicable>	<Not Applicable>	<Not Applicable>	<Not Applicable>

F6.10

(F6.10) Do you participate in external activities and/or initiatives to promote the implementation of your forests-related policies and commitments?

Forest risk commodity

Timber products

Do you participate in activities/initiatives?

Yes

Activities

Involved in multi-partnership or stakeholder initiatives

Initiatives

WBCSD Forests Solutions Group

Jurisdictional approaches

<Not Applicable>

Please explain

PMI is member of WBCSD's Forest Solutions Group (FSG), a global platform for forest sector value chain. Building and sharing business solutions to lead sustainable development in the forest products sector. FSG's mission is to advance the bio-economy and a thriving forest sector that sustains healthy productive forests & people's well-being. FSG members adhere to a set of membership principles and report on key performance indicators to demonstrate leadership and progress on sustainability. As FSG member PMI must demonstrate leadership and commitment to sustainable development through active participations to working sessions and implementing outcomes of these sessions. To track and show individual and joint progress in sustainability, the FSG reports annually on the group's performance across six core environmental and societal commitments. As a sign of our shared commitment and as a condition of our FSG membership, PMI endorses and adheres to a set of Membership Principles and Responsibilities. The FSG reports annually on associated Key Performance Indicators (KPIs) and collect supporting information to measure and show our joint progress in sustainability in accordance with internationally recognized reporting practices and standards. PMI's participation in the FSG enables first-hand application of the outcomes from discussions and efforts shared by the group, which is characterized by thought leaders from companies highly committed to generate positive impact through sustainable management of forests. These outcomes contribute to strengthen PMI sustainability strategy; PMI benefits from the collaborative exchange between members (including some of PMI's suppliers), e.g., to validate progress and results against our forest-related commitments, including our Zero Deforestation Manifesto. With our active participation commitment, in 2020, we jointly published with WBCSD the implementation results of circular bio-economy concepts in our tobacco supply chain in China. In the provinces of Yunnan and Guizhou, PMI is part of a large transformational project to drive farmers towards sustainable fuel usage with the support of local governments and under the leadership of CNTC (China National Tobacco Corporation).The project consists of converting tobacco curing barns from coal to biomass and creating a fuel-pellet supply chain produced from agricultural waste.

Forest risk commodity

Timber products

Do you participate in activities/initiatives?

Yes

Activities

Involved in jurisdictional approaches

Initiatives

<Not Applicable>

Jurisdictional approaches

Other, please specify (Monitoring Framework for Sustainable Leaf Curing Fuels)

Please explain

In its Zero Deforestation Manifesto, PMI sets targets to achieve sustainability and traceability of wood fuels used in the curing of Virginia flue cured tobacco purchased. To monitor progress against those targets, PMI developed its Monitoring Framework (MF) for Sustainable Leaf Curing Fuels. The MF must be implemented by our suppliers in all flue-cured sourcing markets. Through a set of stringent indicators PMI verifies the suppliers' compliance with a third-party audit process. Concretely, Principle 2 of the MF focuses on sustainability and traceability of the wood fuel and has one specific indicator focusing on tracing and documenting all the wood fuel used for tobacco curing activities to the source. This information is provided to farmers and curing centers annually and is used by PMI to identify sources of fuel that would not meet PMI's sustainability criteria. To meet the MF standards, the sustainability and traceability criteria used must be also aligned to the ones implemented by local governmental institutions. This allows local suppliers to provide valid documentation to support their assertion of compliance, supporting conformity against the MF, and, therefore, supporting the overall achievement of PMI's environmental strategy. In the past in certain jurisdictions such alignment was not yet fully observed. In these cases, PMI and its suppliers jointly with national and local administrations defined the interface to ensure the necessary traceability mechanism is in place and to enable the sustainability criteria for compliance to be reported against the MF. In the Philippines, for example, in 2019 our suppliers engaged with the Department of Environment and Natural Resources (DENR) in the provinces growing flue-cured tobacco for PMI to review the applicable criteria for traceability and sustainability of wood fuels and align to their existing Technical Bulletin (TB). As a result, a new TB was issued by the DENR, publishing the set of criteria in line with the MF applicable to the local jurisdictions. This publication enabled local suppliers to ensure the MF requirements are properly implemented by local farmers and wood vendors, this defined a more straightforward process to request tree plantation and harvesting permits. In 2020, all of the farmers and wood vendors comply with the MF and securing permits as imposed by the local regulation.

Forest risk commodity

Timber products

Do you participate in activities/initiatives?

Yes

Activities

Engaging with non-governmental organizations

Initiatives

<Not Applicable>

Jurisdictional approaches

<Not Applicable>

Please explain

In achieving the target of 100% sustainable and traceable firewood, PMI is currently engaged in industry efforts to collaborate with NGOs and other stakeholders in areas such as reforestation, availability of sustainable firewood, among others. This approach is currently being implemented in Brazil and Philippines where all PMI tobacco leaf suppliers come together and plan an industry strategy and collaborate with other stakeholders to achieve sustainability and traceability of fuel sources. For example, in Brazil, the implementation of the Monitoring Framework has triggered all three main tobacco leaf suppliers to form an industry approach to manage sustainability and traceability of firewood. PMI and tobacco leaf suppliers in Brazil have defined a roadmap to collectively update the sustainability study every 3 years from 2019 onwards. Taking an industry approach will help strengthen the efforts that help to achieve the 100% sustainability and traceability of firewood in Brazil and Philippines.

Forest risk commodity

Timber products

Do you participate in activities/initiatives?

Yes

Activities

Involved in industry platforms

Initiatives

<Not Applicable>

Jurisdictional approaches

<Not Applicable>

Please explain

PMI is a member of the Sustainable Tobacco Program (STP), a due diligence platform for sustainable agricultural supply chains. The initiators and STP Companies are formed by several of tobacco industry's players, including some of the largest companies and PMI. The STP was developed by the STP Companies supported by external technical consultants as a collaborative effort with industry participants. Subject matter experts and STP Companies' suppliers of tobacco leaf are consulted throughout the process. The results are reported in the due diligence platform, which is set up to evolve and support the sector to continuously improve its impacts towards sustainable supply chains. STP Companies are committed to the sustainable production of tobacco to enable a consistent supply of tobacco products that meet adult tobacco users' expectations, as well as quality and regulatory requirements. The STP Companies define sustainable tobacco production as the efficient production of quality tobacco in conditions that limit as much as possible the impact on the natural environment and that improve the socioeconomic conditions of the people and communities involved in its production. Sustainable tobacco production is the logical outcome of farmers and suppliers consistently applying the Sustainable Tobacco Program. The STP implementation is normally verified on an annual basis, reporting on suppliers' compliance against the STP standard. The outcome of the verification supports the achievement of PMI's sustainability strategy, including our forest-related commitments.

(F6.11) Is your organization supporting or implementing project(s) focused on ecosystem restoration and protection?

Yes

F6.11a**(F6.11a) Provide details on your project(s), including the extent, duration, and monitoring frequency. Please specify any measured outcome(s).****Project reference**

Project 1

Project type

Forest ecosystem restoration

Primary motivation

Voluntary

Description of project

Auera is a voluntary project developed by Philip Morris Brazil (PMB) in partnership with Embrapa (Brazilian Agricultural Research Corporation from Ministry of Agriculture, Livestock, and Food Supply) to manage biodiversity at farm level through practices that bring conservation benefits for the environment and to farmers through ecosystem services. In the past vacuum in regulatory requirements disincentivized farmers to keep Permanent Preservation Areas (PPAs) or Legal Reservations on their land, while encouraging the opening of new production areas to increase their revenue streams with little concern about protecting local biodiversity and natural resources. Additionally, past agricultural management practices resulted in erosion, an influx of invasive exotic plant species and degradation of remaining areas of native vegetation, all of which caused some sort of ecological imbalance. In response, through its Good Agricultural Practices (GAP) Program, PMI has been supporting sustainable tobacco production, with the environmental requirements of the program focusing on protecting, maintaining and promoting Biodiversity. The Auera Project is split into 3 phases: pre-diagnostics, full diagnostics and interventions on farms in southern Brazil. The pre-diagnostics phase aims at verifying the current level of sustainability in areas contracted to grow tobacco for the company. This snapshot is used to define KPIs that will be monitored and analyzed in the full diagnostics phase, detailing the interventions required to maintain and improve balance in forest ecosystems. Interventions will focus on creating tobacco farming areas that are benchmarks in sustainability. This will include recovering degraded areas, protecting water sources, creating ecological corridors, eliminating invasive exotic species from PPAs and improve the balance of ecosystem services to help maintain local fauna and flora. KPIs will be defined during the final phase of the project to characterize natural resources, farm biodiversity management and protection, agricultural forestry systems to reinstate environmental conditions, reinstate and promote biodiverse crops and maximize their use to drive crop diversification and sustainability.

Start year

2019

Target year

2022

Project area to date (Hectares)

15683

Project area in the target year (Hectares)

15683

Country/Area

Brazil

Latitude

-29.725173

Longitude

-52.464501

Monitoring frequency

Six-monthly or more frequently

Measured outcomes to date

Other, please specify (Pre-diagnosis completed and full diagnostic ongoing)

Please explain

The program is monitored through periodic meetings, videoconferences and call sessions. Interim results are discussed and analyzed by the project's executive committee, which has an equal number of members from Embrapa Clima Temperado, Philip Morris Brasil and PMI's regional team. The pre-diagnostics phase resulted in the identification of further areas for action, among which the monitoring of biodiversity to be fully implemented at PMB operations; and the training of internal stakeholders and local farmers on the topics related to biodiversity. Specific interventions to improve the sustainable tobacco production model continue to be assessed and include, among others, ecosystem restoration, identification of endangered species, and removal of invasive species. Some KPIs identified during the pre-diagnostics phase include: • Soil Mesofauna and Macrofauna • Presence of a Permanent Protection Area • Presence and diversity of honeybees • Endangered species by region • Cultivation and use of bioactive plants • Presence of ecological corridors The Auera's training pillar includes in its scope a broad training program for qualification. The training plan was first implemented in 2019 and will continue through 2022 with specific sustainability and biodiversity protection courses developed in partnership with Embrapa. Training courses are conducted with both PMB employees involved in the initiative and contracted farmers, combining awareness and technical guidelines for developing and implementing interventions on farms participating in the program. So far 85 PMB employees and field technicians (FT) were trained during the pre-diagnostic phase. In 2020, during the full diagnostic phase, a refresher training was conducted and it covered 100% Of PMB's field technicians and supervisors. The next phase which is the full diagnostic period is still ongoing and it covers all representative tobacco growing areas where PMB operates. A monitoring system was developed to be used to conduct field monitoring and farmers' interview in order to understand the field status about soil, water, diversification, climate change impact, flora and fauna, waste and other ecosystem related topics. Once the detailed diagnostic phase is concluded, Embrapa will produce a range of materials on all the issues mentioned above for distribution to the farming community.

F7. Verification

F7.1

(F7.1) Do you verify any forests information reported in your CDP disclosure?

Yes

F7.1a

(F7.1a) Which data points within your CDP disclosure have been verified, and which standards were used?

Disclosure module

F6. Implementation

Data points verified

To prove that firewood is renewable and traceable, we use our Monitoring Framework, to verify the sustainability attributes of how our suppliers and their farmers are managing deforestation risks. To prove that we comply with the Zero Deforestation Manifesto target on Board and paper used on Primary Packaging as causing no significant risk of deforestation on Primary forests, we use the Assurance framework that we designed and validated by a third party expert coupling the wood, pulp, and fibers' countries of origin with the holding of FSC or PEFC Chain of Custody certifications.

Verification standard

The Framework is an internal standard that aligns with international best practices and standards [mainly FSC and PEFC], and it is verified by a third party. It requires full chain of custody at a mill level and countries of origin for timber, pulp and fibers to be low risks according to our Risk Assessment which is based on the FSC national risk assessments and also validated by the third party.

Please explain

The proportion of tobacco we currently purchase that is cured at no risk of deforestation stands at approximately 100%. Monitoring and supplier engagement go hand in hand. To ensure fuel sources are sustainable, we support suppliers and farmers in planting trees to supply renewable firewood for tobacco curing. Suppliers report twice a year on their performance according to our Monitoring Framework, in addition a self-assessment and a third-party verification are performed annually. Our Zero Deforestation Manifesto (ZDM) set the following target: Zero net deforestation of primary and HCV forests associated with the supply chain of paper and board by 2022. We have defined an internal and intermediate target to reach 50% by 2020. On a yearly basis, we collect traceability data from our supplier base as well valid PEFC/FSC CoC certificates. In 2020, together with a third-party expert in forest Management practices, we have developed the first pillar of our assurance framework that aims at assessing compliance towards the ZDM commitments. A Country risk assessment, based on the based on the FSC national risk assessments, has identified risk levels per countries of origin gathered from supplier base's traceability data collection exercise. To monitor achievement toward our internal target of 50% in 2020 of Board and Paper used in Packaging causing no risk of deforestation on Primary and HCV forests, we focused on suppliers holding valid CoC certifications and sourcing their raw material from low risk countries. The results validated by our third-party expert was 61% of volume in 2020 vs the 50% internal target.

F8. Barriers and challenges

F8.1

(F8.1) Describe the key barriers or challenges to eliminating deforestation and/or conversion of other natural ecosystems from your direct operations or from other parts of your value chain.

Forest risk commodity

Timber products

Coverage

Supply chain

Primary barrier/challenge type

Supply chain complexity

Comment

The use of firewood as fuel for tobacco curing are the areas of our supply chain with forest-related risks. In some countries, the supply chain for firewood as fuel for tobacco curing can be very informal, with tier 2, tier 3 or tier 4 suppliers. For example, some farmers collect firewood themselves, or purchase it from firewood vendors, who may obtain it from various producers or intermediaries. Given the difficulties to change local market practices, achieving traceability and ensuring sustainability present challenges. As we progress with the implementation of our Monitoring Framework and its verification by a third party, we expect these challenges to be addressed in the short to medium term.

Forest risk commodity

Timber products

Coverage

Supply chain

Primary barrier/challenge type

Cost of sustainably produced/certified products

Comment

Traceability exercise down to the expected granularity level is very complex. It requires extensive resources to compile and compute data in a precise and usable way. Also, in some cases, wood species, origins and proportional quantities used are considered proprietary by suppliers and are not shared. Market dynamics affecting supply and demand of certified wood is also a barrier. With only a few percentage points of global forests being covered by third-party certification schemes due to the high complexity of these schemes' requirements, the mark up costs linked to materials made from certified wood remain budget demanding for large corporate having high demands.

F8.2

(F8.2) Describe the main measures that would improve your organization's ability to manage its exposure to deforestation and/or conversion of other natural ecosystems.

Forest risk commodity

Timber products

Coverage

Supply chain

Main measure

Investment in monitoring tools and traceability systems

Comment

Even if forest certification is a voluntary process, the costs for small forest holders can be prohibitive. Expanding collaborative group certificates, according to credible standards such as FSC, will be essential to expand certification and increase the availability of certified materials. In order to improve our traceability and monitoring capabilities, we are investing in technological and innovative solutions, plus continuously exploring better geospatial monitoring systems that are available and internationally recognized. Aside from that, PMI is also leveraging on the engagement of our suppliers, to enhance the collection, analysis and validation of the traceability data that would serve the purpose of better managing inherent deforestation and/or conversion of other natural ecosystems risks laying in our supply chain.

F17 Signoff

F-FI

(F-FI) Use this field to provide any additional information or context that you feel is relevant to your organization's response. Please note that this field is optional and is not scored.

F17.1

(F17.1) Provide the following information for the person that has signed off (approved) your CDP forests response.

	Job Title	Corresponding job category
Row 1	Chief Executive Officer (CEO)	Chief Executive Officer (CEO)

Submit your response

In which language are you submitting your response?

English

Please confirm how your response should be handled by CDP

	I am submitting to	Public or Non-Public Submission
I am submitting my response	Investors	Public

Please confirm below

I have read and accept the applicable Terms